

# THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 72. No. 1

April 17, 1943

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## CONTENTS

|  |    |
|--|----|
| The Trend of Events .....  | 3  |
| As I See It! By Charles Benedict .....   | 5  |
| How Far Can This Market Go? By A. T. Miller .....  | 6  |
| What Is the Wisest Investment Policy Now?<br>By Laurence Stern .....                         | 9  |
| Political and Industrial Effects of Changing Economic<br>Controls. By Ward Gates .....       | 12 |
| Diverse Effects of Rationing on Food Securities and<br>Related Issues. By L. O. Hooper ..... | 15 |
| Mexico, Central America and Cuba. By V. L. Horoth .....                                      | 18 |
| The Allies Shape World Recovery.<br>By George B. Collingwood .....                           | 21 |
| Dynamic Outlook for Rayon Stocks. By J. C. Clifford .....                                    | 22 |
| Happening in Washington. By E. K. T. ....  | 26 |
| Investment Audit of the Erie Railroad.<br>By Pierre H. Bretey .....                          | 29 |
| Re-appraisal of Companies in the News.<br>By Magazine of Wall Street Staff .....             | 33 |
| A Century of Prices. By H. M. Tremaine .....   | 36 |
| Promising Leverage Stocks. By George W. Mathis .....   | 38 |
| For Profit and Income .....  | 40 |
| Answers to Inquiries .....   | 42 |
| The Business Analyst .....   | 43 |

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SUBSCRIPTION PRICE—\$10.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, \$1.00 additional per year. Please send International Money Order or United States Currency.

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CHARLES J. HARDY, President  
HOWARD C. WICK, Secretary

April 6, 1943



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DALE PARKER  
Secretary

April 1, 1943

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*American Viscose Corp.*

**This picture shows viscose rayon yarn being wound on cones in one of the plants of the American Viscose Company. The rayon industry is doubly fortunate. Very active in war, there is large post-war growth ahead of it—and no re-conversion problem. But for this year there are cons, as well as pros, in the story—the story beginning on page 22.**

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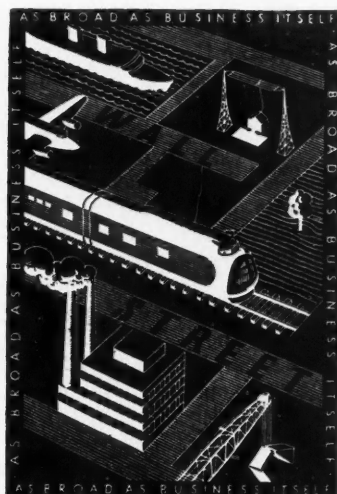
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# THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*

LAURENCE STERN, *Managing Editor*



## The Trend of Events

**HOLD THE LINE . . .** The President's sweeping anti-inflation order, freezing prices and wages and prohibiting job changing for higher pay, will be widely acclaimed as a step in the right direction, long overdue. Its urgency is clearly implied in the President's own language. "To hold the line we cannot tolerate further increases in prices affecting the cost of living or further increases in general wage or salary rates except where clearly necessary to correct substandard living conditions. The only way to hold the line is to stop trying to find justification for not holding it here or not holding it there. No one straw may break the camel's back, but there is always a last straw. We cannot afford to take further chances in relaxing the line. We already have taken too many."

No one can justly dispute this. In our fight against inflation, too much valuable time was lost in purposeless dilly-dallying, in pitting the interests of one group against the other's, in futile compromises born from unwillingness to make unpopular decisions. All this has gravely endangered our economic health and undermined our unity so essential in waging war. For this reason, the President's action is to be commended and deserves the support of the country.

The "hold the line" order is a climactic aftermath

of the farm price conflict which only recently reached its head when the President vetoed the Bankhead Farm Price Bill. Recommitment by the Senate of the vetoed measure to its Agriculture Committee, there to be held as a club pending the outcome of efforts to stabilize industrial wages, constituted the sort of political temporizing which we can ill afford at this juncture. Considering the economic consequences involved, the country had a right to expect that congress meet squarely and promptly this issue so important in our fight against inflation. The President's veto message lacked neither compelling logic nor clarity in outlining the issues at stake. Failing to subordinate their own interests to the dictates of the hour, the farm bloc is now faced with a challenge it could have avoided. As it is, it now can hardly refuse to cooperate in proper implementation of the President's program.

The same holds true of those segments of our labor front which so far were unwilling to join in combating the insidious price-wage spiral. Their efforts to undermine the "Little Steel Formula" have now met with a definite challenge and they can ill afford to take upon themselves the onus of opposing the President's stabilization program. In fact, John L. Lewis, out on a limb with his \$2 a day wage in-

BUSINESS, FINANCIAL and INVESTMENT COUNSELORS : 1907—"Over Thirty-Five Years of Service"—1943

APRIL 17, 1943

3

crease demand for his mine workers, may yet find a convenient "out" in accepting the wage freezing order. However, this remains to be seen. Preliminary comments in labor quarters indicate that their attitude may be largely contingent on the actual levels at which prices will be frozen. While the levels of Sept. 15, 1942, as authorized in last year's Emergency Price Control Act, may be acceptable to labor, the fact remains that some prices affecting the cost of living are already above these levels, and all of them cannot be rolled back, as the President himself admitted. It is along these lines that labor may choose to take a stand.

The danger of inflation, of course, does not lie in rising prices and wages alone; adequate fiscal measures are needed to deal with the "inflationary gap." This is fully recognized in the President's order by requesting Congress to act in order to reduce and hold in check excess purchasing power. "We must prepare to tax ourselves more, to spend less and save more." This no doubt will be a painful process but then there are no shortcuts to economic health. The alternative, we can be certain, would be infinitely worse.

**IT'S UP TO US . . .** In terms of current prices, the total supply of consumer goods and services to be available this year will be \$35,000,000,000 less than the available income of the consuming public. The figure is the latest Government estimate. Huge as it is, the sum probably does not exceed by much margin, if any, the present annual rate of savings accumulation by the people, judging by the sharply rising savings trend officially reported for the fourth quarter of last year. Since employment and payrolls have increased further, there is no reason to assume the savings trend this year has not been accelerated.

Obviously, the American people in the aggregate are now in a position to buy war bonds in far larger amounts than they have been doing heretofore. Roughly, they have been buying only about a third as heavily as the savings accumulation figures suggest would be possible. If the people will not voluntarily buy more war bonds, Congress can not much longer defer coming to grips with the hard problem of higher taxes and/or compulsory savings. It's up to us—all of us. It is our war; not the private war of the President or of Congress.

The objection to a general increase in tax rates and to blanket forced savings on a scale large enough to fill the fiscal need is that the burden would be impossibly heavy for many millions of people whose incomes have not increased—besides the fact that sums raised by compulsory savings would be largely offset by inevitable shrinkage in voluntary purchases of war bonds. On the other hand, a tax increase small enough to be bearable by people with fixed incomes would not make more than another minor dent in the hugely increased aggregate income of individuals whose employment and/or in-

creased earning power is due entirely to the war activity.

The most equitable and logical answer would seem to be an excess income tax for individuals, on the same principle as the excess profits tax for corporations. Of course, the people can make that unnecessary by buying war bonds in even larger measure than the Treasury is asking in its pending drive—but how well they will respond remains to be seen.

Buy war bonds!

**RAIL DEBT REDUCTION . . .** In the first two months of this year the Class I railroads had a total net income of about \$125,000,000, compared with slightly less than \$50,000,000 in the first two months of last year, according to estimates of the Association of American Railroads. This was a gain of 150 per cent., carried through from an increase of 41.5 per cent in gross revenue from dollar total of \$943,170,944 in January-February, 1942, to \$1,334,912,938 for the same two months this year.

But a year ago there was still some slack to be taken up in railway transport capacity. It is not physically possible that the pace of January-February expansion in gross or net can be projected through the year. Nevertheless, 1943 will be another year of very high earnings for the rails, probably with a general gain of 10 to 15 per cent over 1942.

It is a good thing for the longer health of the carriers that the bulk of this new-found prosperity is being utilized to retire debt or strengthen liquid positions. Between reorganizations and debt retirement out of earnings, the railroads are certain to emerge from the war in a substantially improved debt position. It is possible that the eventual reduction in debt can be of truly major proportions—if the war activity lasts for another two years and if we have several years of high economic activity in the post-war period.

**SILVER LINING . . .** As pointed out in our article on page 15, there are a variety of reasons why the consuming public is confronted with a shortage of some types of foods—a novel experience in this country. But in the case of the most important current shortage—that in meats—there is a silver lining in the cloud not visible to the public but very obvious to farmers. This is an abnormally large supply of meat on the hoof, on the farms and ranches.

The raisers of food animals have long known there would be a market, at good prices, for all they could supply. So the object has been to build up herds—to let little pigs become big pigs, to let calves live to become steers or cows. The very large grain crops last year happened to fit in perfectly with these objectives, permitting stock raisers to feed enlarged herds, whereas normal or short grain crops would have forced heavier marketings. Despite the large needs of the armed forces and lend-lease, we probably will have somewhat more liberal meat rations in due course.

# As I See It!

BY CHARLES BENEDICT

## THE FUTILITY OF ISOLATIONISM

**I**F THOSE who advocate isolationism do so on the ground that it will keep us out of future wars, then we must either doubt their judgment or their sincerity, since the record clearly shows that we became heavily involved in World Wars I and II despite the most intense kind of isolationism almost up to the moment of actual participation as a friendly neutral.

Moreover, we suffered severely both economically and financially because we did not, as is now advocated, take part in planning the new economic world that emerged when the conflagration had been put out last time.

The truth is that we cannot sit on the sidelines so long as our economic interests are international in scope. That being so, we must of necessity take part in the planning of the new world in the making, or feel the deleterious effects on our domestic economy, on the farm, in the factory and in the homes of our people.

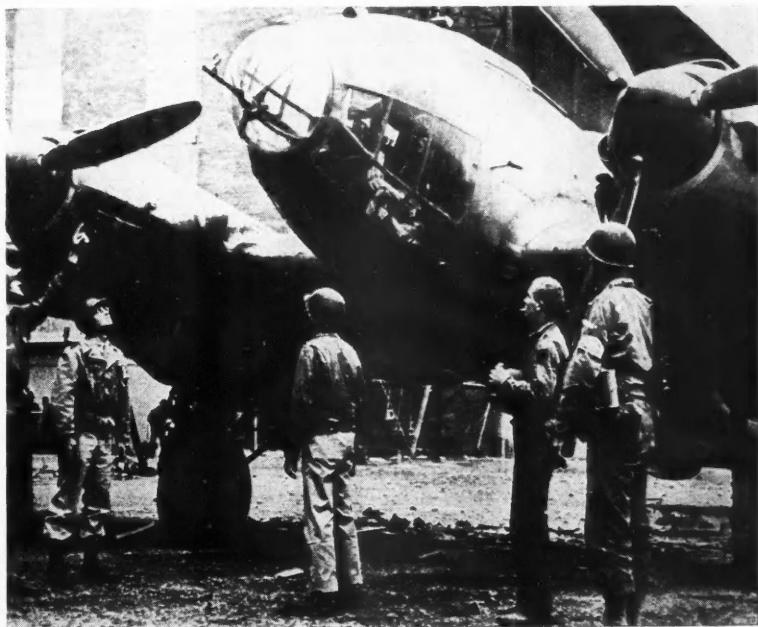
The obstructionist activities of the isolationists are running parallel to the efforts of those interests who would prefer to leave the United States so top-heavy with internal debt and a high wage economy, as to affect our position in world markets most seriously. Their propaganda has for a long time been expressing the belief that it was futile to arrive at agreements with the United States when there is no certainty as to what our policy will be when the war is over. And yet this is the time when such agreements must be made. It will be too late a year from now.

As it happens, we are in a better position to negotiate the peace today than we were after the last war. Too, we approach the problem with a greater grasp of international affairs in their relation to our domestic economy than was possible before. There is greater understanding, as well, of the realities measured in the terms of economic and social justice for the smaller nations on the workable basis of practical idealism, in-

stead of the previous theoretical, Utopian dreams frequently advocated by charlatans and selfish interests.

We are particularly fortunate today in possessing a higher measure of practical leadership with a broad liberal outlook, and a realistic viewpoint—well equipped also, in the right places, with the necessary subtlety in dealing with the sharpened wits of Europeans to whom power has always meant economic dominance. The complicated and diverse problems this war has produced call for first-rate thinking and experience in negotiating with countries to whom the aftermath will mean a struggle for survival. This will be true also of those great interests whose wealth and power have previously reached out into every corner of the globe. As many of us are aware, the President is particularly well qualified to cope with the intricate mentality of today's world leaders, and so is our State Department.

The task of protecting (*Please turn to page 49*)



Captured German plane being examined by U. S. officers in Tunisia.

International



# How Far Can This Market Go?

**The total supply of investible funds—primary foundation of demand for equities—will continue to be inflated, regardless of commodity price and wage controls. Over the longer term, cash is likely to buy less shares of stock rather than more. We favor selective purchases in the current recession.**

BY A. T. MILLER

**T**HE President's executive order to "hold the line" on price and wage controls touched off the sharpest reaction since the bull market got under way in late April of last year.

In analyzing the significance of this anti-inflation move to the stock market, we have to consider both the news development itself and the technical condition of the market at the time the news broke.

The fact is that there had previously been sufficient deterioration in the internal health of the market to make it somewhat vulnerable to any unexpected news subject to adverse or bearish interpretation. To this extent the President's "bombshell" was partly a cause of lower prices, partly an excuse for a technical correction that we probably would have experienced in due time anyway.

As has been pointed out in these discussions before, the pace of advance—especially in low-price stocks—had been remarkably fast during the first quarter of this year. Even though the bulk of the buying was on a cash basis, it had for some weeks been becoming more and more speculative in character and motive. By "character" as used here we mean the quality and sophistication of the buyers.

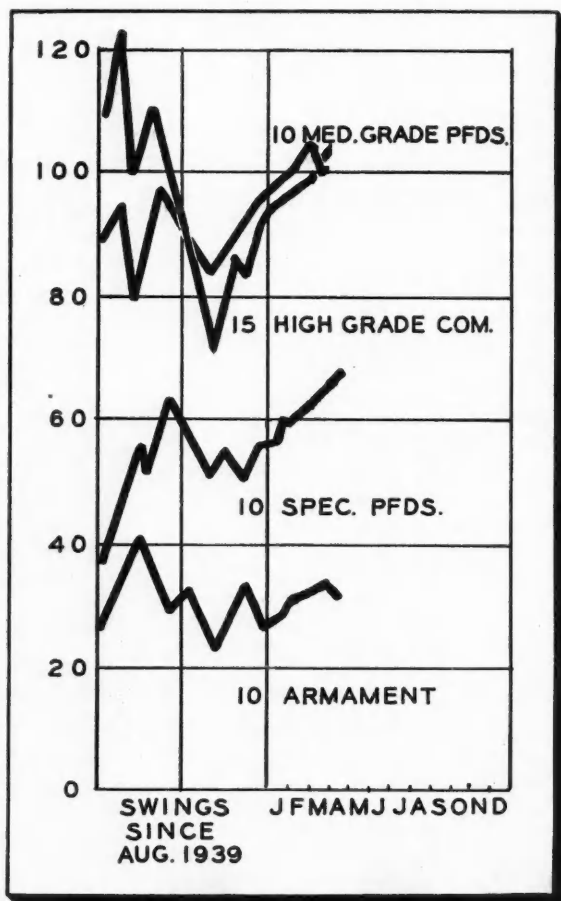
There had also been some increase in the margin position—not basically important but supplementary evidence of technical deterioration. In the 7-day period ended April 7 there had been an increase of \$39,000,000 in loans on securities to brokers and dealers by reporting member banks in New York City. In the three-week period ended April 7 there had been an increase of \$82,000,000—or some 20 per cent—in such loans.

At the start of last week—with the public's bullishness at a new peak but with most professional analysts and many substantial investors voicing or feeling "caution"—volume on the New York Stock Exchange set a new high for the year at approximately 2,648,000 shares. Even before the President's executive order was released later in the week, there were some indications that raised a question whether that big session represented a "blow-off".

For one thing, peak volume coincided with heavy demand for speculative rails and the Dow industrial average was able to advance only fractionally. In the first two days of the week it advanced a total of 1.33 points and in the following two days—before

announcement of the anti-inflation drive—it declined a total of 1.41 points; while the rail average in three sessions gave up over half of the sharp gain recorded at the start of the week. Here and there, with no news to explain it, there were outcroppings of softness in prominent stocks, notably Chrysler and Montgomery Ward.

Against this technical background, the initial decline of 4.30 points in the Dow industrial average last Friday, and of 1.71 points and 77 cents in the rail and utility averages, respectively, does not ap-



pear unduly violent. It merely took prices back to where they were in mid-March.

Probably it was coincidence that the President's anti-inflation order was issued just before the opening of the \$13,900,000,000 war-bond sales campaign—but it was a coincidence most pleasing to the Treasury. There can be no doubt that Mr. Roosevelt has finally put his foot down firmly on cost-of-living inflation—in which the rise in food costs was the most dynamic factor—and this is just what the Treasury wanted. The continued erosion in the purchasing value of the dollar was certainly not a thing that could fit in with maximum sales of war bonds. No doubt the Administration would like to see the stock market remain at least in a subdued mood during the weeks of this war-financing effort.

Yet mention of the current war financing brings up a somewhat curious paradox. At the very time that a somewhat naive "inflation psychology"—geared superficially to the visible price phenomenon—has been punctured, inflation of the nation's money supply is being unavoidably speeded up! The Treasury expects that the \$13,000,000,000 of war bonds will absorb \$8,000,000,000 of savings and that commercial banks will "take" the other \$5,000,000,000. Here in one operation is another \$5,000,000,000 of monetary inflation.

Ahead of us is a continuing and prodigious inflation in the total supply of money. As the Government spends the billions of dollars "created" by commercial bank purchase of Federal debt-paper, the money flows back into the expanding bank deposits of consumers and business enterprises. The net result is an increase in the liquid savings of individuals, now going on at a rate in excess of \$20,000,000,000 a year!

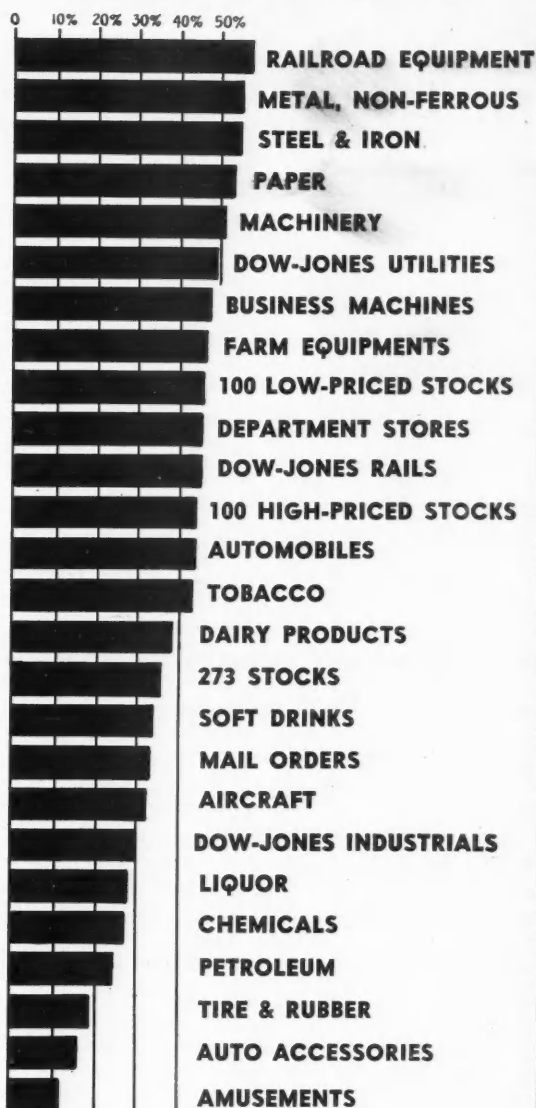
Here is the primary foundation—a continuing foundation—for higher stock prices; and the secondary foundation is much increased confidence both in the war prospect and in the post-war economic potentials. Nothing in the President's order changes these foundations one iota.

Investors turned to the buying side over the past year in increasing numbers for a variety of reasons and combinations of reasons. Some—on the whole the least sophisticated—bought in expectation of considerable commodity price inflation during the war. Those following that line of reasoning will be less bullish now. Others reasoned that commodity price inflation would develop on its maximum scale after the war.

Still others—and the writer believes they are on the most realistic ground—have been influenced mainly by the belief that (1) the post-war years will see a great period of economic expansion (that is, a "constructive" or "benign" inflationary era; that (2) a basic politico-economic swing to the right—or at least to the middle-of-the-road—is under way in this country; and that (3) corporate taxes, already conceded to be either at or very close to maximum, will in due time be moderated.

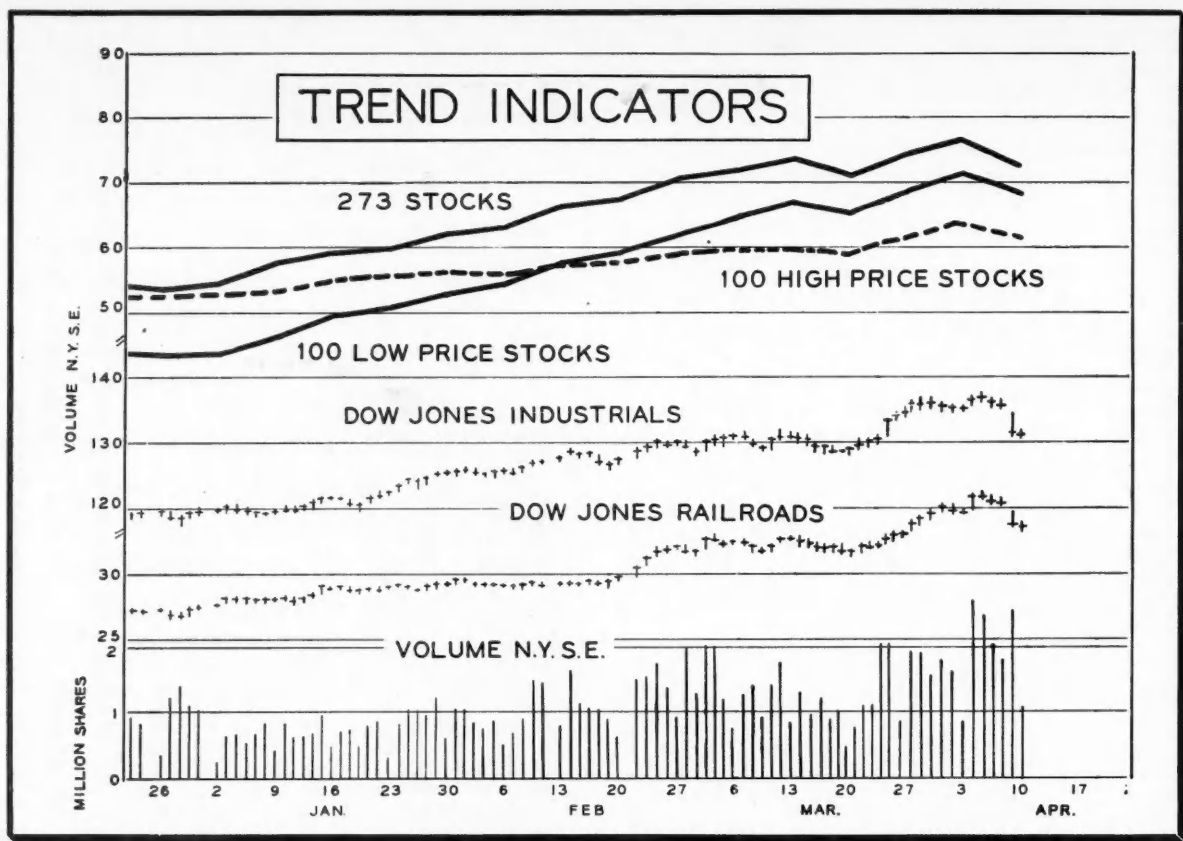
To the extent that it has any actual effect upon corporate earnings—incidentally, final figures on 1942 profits of 2,560 leading corporations showed

### Percentage That Stock Groups Are Still Under Their 1937 Peak



a decline of less than 1 per cent from the high level of 1941—control of price inflation would improve earnings. The reason is that many more companies have been threatened by a squeeze between prices and rising wages and raw material costs than have had any prospect of cashing in on price inflation.

So far as a war-time bull market is concerned, the chief direct influence—negative or positive—over the period ahead will not be price and wage controls but fiscal policy. It is very doubtful that any fiscal steps likely to be taken will of themselves touch off a real liquidating movement in common stocks, but it would be possible for fiscal measures—higher income taxes and/or some type of compulsory war-



bonds savings program—to reduce the volume of investible funds that would otherwise continue to seek placement in securities.

Heretofore, due partly to a recalcitrant Congress, fiscal policy has been the weakest aspect of the Administration's anti-inflation policy. For many months, the President and the Treasury have left the problem entirely in the hands of Congress—except to state that they would like to see \$16,000,000,000 more a year sliced out of the "inflation gap" through some combination of taxes and larger sales of war bonds.

It would not be surprising if at almost any time the Administration formulated more precise and much more insistent demands on the fiscal side, but if there is to be any general tax program this year it is evident that the usual long period of months will be spent in wrangling over it, which means that such legislation hardly could take final form before very late in the year. We cite the possibility not as a predictable handicap for the stock market, but to emphasize that fiscal policy—because of its direct relation to the supply of investible funds available for purchase of securities other than war bonds—is of much more basic significance to the market than is control of wages and prices.

At this writing, there has been no sharp extension of last Friday's excited decline, but the averages have weakened slightly at the start of this week. The action is encouraging to the extent that it appears to confirm our impression that there is no "wide open" air pocket under this market—but it does not preclude additional irregular reaction with-

in the remainder of this month. Indeed, we are somewhat skeptical of the market's chances of promptly surpassing last week's average highs and swinging off into a further phase of dynamic advance. If this is correct, the alternatives for the near-term are "consolidation" or more reaction.

Our current advice to you is to use liquid savings in buying war bonds, in accordance with your individual circumstances. For patriotic and other reasons, that is now a primary obligation of all of us. If you have additional funds available for common stock investment, our opinion is that you should welcome a corrective period in the market as presenting an opportunity for selective purchases.

We have no fixed conviction as to how much reaction should be allowed for—except that in general terms our thoughts lean to minimums rather than maximums. Unless there are further new developments to help it along, we rather doubt that the market will react below the 125 level in the Dow industrial average this spring. That level would represent a cancellation of one-fourth of the entire advance from the lows of April a year ago. In view of the underlying strength of the bull factors and the light margin position, we doubt that technical consideration by themselves justify anything more extreme. Since it is possible that we may not get even that much reaction, we think a sensible course—if you are heavy in spare cash—is to undertake scale-down purchases at and from the 130 level. Suggestions as to selection are presented on subsequent pages, especially in the immediately following feature article.

—Monday, April 12.

# What Is the Wisest Investment Policy Now?

As Security Prices Meet a Significant Test on New  
Anti-Inflation Controls Ordered by the President

BY LAURENCE STERN

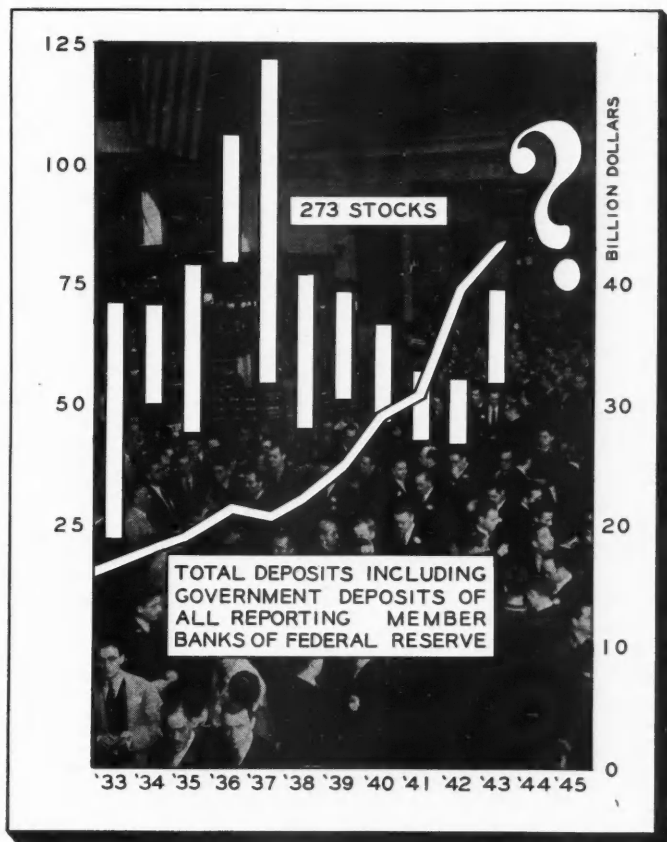
AT the end of this month a bull market will have been under way for one year.

The rise to this writing has been about 47 per cent in good quality industrial stocks, of which we can take the Dow-Jones industrial average as fairly typical; about 90 per cent in *THE MAGAZINE OF WALL STREET*'s weekly index of 273 stocks, which reflects more than three quarters of all transactions on the New York Stock Exchange; and 135 per cent in our index of 100 low-price stocks.

But it is mainly within the past several months that this bull market has become a spectacular "hit" with the investing and speculating public. Since the first of the year—a period of 13 weeks at this writing—the Dow-Jones industrial average has advanced about 15 per cent; our more inclusive weekly index has advanced 44 per cent; and the index of 100 low-price stocks has advanced nearly 69 per cent.

Despite periods of pause or minor recession, the above figures work out so far this year to an *average weekly* gain of more than 5 per cent in representative low-price stocks; of nearly 3.4 per cent in the general market, of which our broad weekly index is typical; and of better than 1.2 per cent in the Dow-Jones industrial average. This speed of appreciation, if projected on an annual basis would approximate 260 per cent in the low-price stocks, 176 per cent in the general market and 62 per cent in the Dow-Jones industrial average. "Spectacular" is the right word for it. Indicative of the great revival of public interest in common stocks, the volume of transactions on a recent day set a recovery high in excess of 2,600,000 shares. The average daily volume this year to date has been about three times that of the comparable period last year.

Under these circumstances conscientious investment analysts—even if they are reasonably confident that average prices will in time go substantially higher—find it very difficult to decide what is the wisest advice to offer investors who have "missed the market" or have taken only a "light" position or for



New York Stock Exchange

other reasons have surplus funds awaiting investment.

The more conscientious and conservative the analyst is, the more cautious he instinctively feels as he takes note of the speculative symptoms cited above—even though it is a fact that the margin position is notably small. Opportunity to make money for any considerable length of time in the stock market—or anywhere else—at a rate of 1 to 5 per cent a week is, of course, unusual.

Obviously, stocks just are not nearly as cheap as they were a year ago, or three months ago. And if it so happens that one got psychologically attuned to the bull market in its early phases—as did *THE MAGAZINE OF WALL STREET*—it is all the harder to find stocks over which one can really be enthusiastic after advances of 50 per cent to more than 100 per cent in the majority of instances.

## "With an Eye to the Future"

Selected Companies That Will Be Especial Post-War Beneficiaries of Large Accumulated Consumer Demands

General Motors  
Chrysler  
Borg-Warner  
Eaton Manufacturing  
Holland Furnace  
Outboard Marine & Mfrs.  
American Stove  
Doehler Die Casting

Philco  
Flintkote  
Celotex  
McGraw Electric  
Collins & Aikman  
Libby-Owens-Ford Glass  
Commercial Credit  
Commercial Investment Trust

### SELECTED "GROWTH" COMPANIES

Dow Chemical  
Monsanto Chemical  
American Cyanamid  
Bohn Aluminum  
Bendix Aviation  
Sperry  
Celanese  
\*Rustless Iron & Steel

Thompson Products  
\*Fansteel Metallurgical  
Douglas Aircraft  
United Aircraft  
\*Grayhound Corp.  
\*Barber Asphalt  
Minneapolis-Honeywell Regulator  
U. S. Plywood

\*These stocks are speculative and justify only "a business man's risk." The others range from medium to good quality.

Nevertheless, the investor must have a reasoned policy and must come to grip with the problem of making prudent decisions.

## Investors Fully Committed

Some people are fortunate enough to hold full or substantially full positions in stocks purchased at substantially lower prices than now prevail and, therefore, have handsome unrealized profits. To such as these the problem is relatively simple, although what is the wisest decision will depend almost entirely upon the individual's circumstances.

Such people are under the least psychological pressure, or temptation, to cash profits in fear of a reaction or in hope of replacing positions advantageously in a reaction. Assuming that they have avoided individual issues of such dubious value as to be a source of worry, their position is a "comfortable" one. Generally speaking, I think the wisest course here is to sit tight in expectation of substantially — and possibly greatly — higher average prices before the bull market finally runs its course. There may, of course, be logical exceptions to this. The tax situation of the individual must be taken into account. If there are important obligations to be met within several months or less — and cash is not otherwise available — naturally it is prudent to provide for them by taking partial profits. One obligation of all of us is to buy war bonds now, and converting part of market profits to that purpose is painless, patriotic and conservative.

But what about the individual whose fund available for placement in common stocks is either entirely or partially liquid? There we are confronted with a much more debatable problem. Bargain-day has long since gone — but, on the other hand, from a longer-term viewpoint it is reasonable to hold that the broad price average is still at a "medium" level. Thus, this publication's general index is now about 37 points above the extreme low of the past six years but 44 points under the six-year high; while our index of 100 low-

price stocks is 44 points above the low, but 57 points under the 1937 high.

Whatever he does after a notably sharp advance, the individual tentatively eyeing common stocks from the sidelines takes a considerable risk of being temporarily wrong. Having long waited in vain for something more than a minor recession, he may buy — only to be confronted thereafter by a stiff reaction. If he waits for the reaction, it is possible that the market may meanwhile advance further — even enough so that a full "intermediate" correction (by which I mean a decline of, say, 10 per cent in the Dow industrial average over a period of several weeks or longer) might leave the lowest prices at or above present levels.

One thing to note is that the modern "New Deal" market — predominantly on a cash basis — is less subject to sizable technical reactions (as distinct from reactions precipitated by unexpected bad news of considerable importance) than were former markets in which there were substantial marginal holdings that could be "shaken out" and in which "professional" trading operations — and manipulative practices — figured prominently. Instead, the tendency is more toward "straight line" advance, with the technical corrections taking the form of relatively small "pay-as-we-go" reactions or periods of congestion marked by sidewise movement of the averages.

## New Type Markets

We had the first demonstration of this change in the character of the market during the 1935-1937 recovery movement. In two years of rise from March, 1935, to March, 1937, there were only three

## Selected Stocks of Good Quality for Income and Appreciation

Dividend Record as Per Cent on Present Price

|                                     | Average<br>1935-'36-'37 | Average<br>1938-'39 | Average<br>1940-'41-'42 | 8-Year<br>Avg. |
|-------------------------------------|-------------------------|---------------------|-------------------------|----------------|
| American Can .....                  | 6.3%                    | 5.0%                | 4.8%                    | 5.4%           |
| Beech-Nut Packing .....             | 5.4                     | 5.5                 | 5.6                     | 5.6            |
| Bohn Aluminum .....                 | 6.3                     | 1.4                 | 4.0                     | 4.2            |
| Chrysler .....                      | 10.6                    | 4.6                 | 6.6                     | 6.1            |
| Commonwealth Edison .....           | 6.6                     | 6.2                 | 7.2                     | 6.2            |
| Consolidated Gas of Baltimore ..... | 6.0                     | 6.0                 | 6.0                     | 6.0            |
| Corn Products .....                 | 5.7                     | 5.3                 | 5.3                     | 5.5            |
| Du Pont .....                       | 3.6                     | 3.5                 | 4.7                     | 3.8            |
| Eastman Kodak .....                 | 4.1                     | 3.9                 | 3.9                     | 4.0            |
| General Electric .....              | 4.1                     | 3.1                 | 4.2                     | 3.8            |
| General Foods .....                 | 5.1                     | 5.4                 | 4.8                     | 5.1            |
| General Mills .....                 | 3.4                     | 3.8                 | 4.6                     | 3.9            |
| General Motors .....                | 7.0                     | 5.0                 | 6.5                     | 6.2            |
| W. T. Grant .....                   | 5.0                     | 5.3                 | 5.3                     | 5.2            |
| International Harvester .....       | 3.4                     | 2.7                 | 3.6                     | 3.2            |
| Johns-Manville .....                | 3.8                     | 2.0                 | 3.2                     | 3.0            |
| Melville Shoe .....                 | 7.0                     | 5.8                 | 7.2                     | 6.6            |
| Minneapolis-Honeywell Reg. ....     | 3.1                     | 3.0                 | 4.3                     | 3.5            |
| Libby-Owens-Ford Glass .....        | 8.0                     | 5.5                 | 7.1                     | 6.9            |
| J. C. Penney .....                  | 6.2                     | 5.2                 | 5.5                     | 5.6            |
| Phillips Petroleum .....            | 4.4                     | 4.0                 | 4.2                     | 4.2            |
| Procter & Gamble .....              | 3.8                     | 3.8                 | 4.2                     | 4.1            |
| Sperry Corp. ....                   | 2.5                     | 5.4                 | 5.5                     | 4.5            |
| Union Carbide .....                 | 2.8                     | 2.6                 | 3.1                     | 2.8            |
| Average for entire group .....      | 5.2%                    | 4.3%                | 5.0%                    | 4.8%           |

COMMENT: As a group, these 24 stocks are of high class. Considered in relation to low yield on good grade bonds, the potential yield suggested for the group by past record under varying conditions is still relatively generous despite the rise in stock prices over the past year. It seems probable that in a peace-time expansion period after the war the average yield could exceed that of the 8-year back record.

reactions exceeding 5 per cent in the Dow industrial average—during a period in which the total rise approximated 100 per cent—the most severe being an 11 per cent decline over a three-week period in April, 1936, the other two being limited to approximately 5½ per cent and 6 per cent, respectively.

As between that bull market and the present one, the *technical* factors tending to mitigate reactions are stronger now than then. The former was primarily a cash bull market, but this one is even more so. Also, the supply of investible funds, represented by an unprecedented accumulation of savings in the hands of the general public, is much bigger now than then. It is probably true that confidence in the political outlook is stronger now than then, by which I am thinking of middle-of-the-road economic leanings in Congress (which is closest to the voters) rather more than of 1944 Presidential possibilities. There is a general conviction that the war will be followed by at least several years of high economic activity. High income taxes plus a 25 per cent (net) capital gains tax make investment and specu-

stamina which should aid investors in making decisions imminently on the basis of the background reasoning cited heretofore, plus additional light on the timing problem. If it contributes to an important reaction, that will be opportunity to buy. If it induces only a minor dip, that will be renewed evidence that there is more potentiality for advance than decline. Either way—and advice more closely geared to market timing will be found in the A. T. Miller market analyses in this and subsequent issues—the individual whose funds are wholly or largely liquid should be mentally prepared to do some selective buying—partial commitments at least, if a severe reaction does not develop; and to commit a larger proportion of funds in event of important reaction.

### The Case Against Liquidity

If the assumption is correct that we are at a medium range in a continuing bull market is correct, then to be entirely or largely in cash is as indefensible as to be entirely or largely in stocks during the middle stages of a bear market. Note well, however, that the premise set forth is an assumption, rather than a provable fact. The 1942 lows and the 1937 highs in the averages are reference points but not necessarily guideposts. Nobody can possibly forecast—although any fool can make guesses—how long this bull market will last or how high it may go. Technically and otherwise, major tops are harder to call, except somewhat belatedly, than are major bottoms. All the writer can do is express the personal opinion that topping evidence is not now discernible.

As remarked before, there is general conviction that we can count on an extensive prosperity period after the war. Suppose, for the moment, that the war ends one year hence, that it is followed by a transitional year of adjustment and industrial re-conversion, and that then will come the "several" years of great peace-time activity. Does this projection imply five more years, at least, of market advance generally similar to that of the past year? It's possible. Almost anything is possible—but it sounds very pat. The market has been discounting peace and post-war prospects for many months. Without contending that this discounting has now been over-done, I raise the point that it might readily prove to have been overdone either when peace comes or when investors and speculators begin to figure that it may be fairly near. Conceivably the latter consensus could develop by, or before, the end of this year.

### Long-Range Assumption

Although I believe it most likely that at some time in the post-war period, average stock prices will be much higher than now, I think longer term investors would be wise not to gear their thinking to straight-line bullish assumptions (*Please turn to page 53*)

### Sound Low-Price Stocks for Longer Term Appreciation

|                         | 1937<br>High | 1938<br>Low | 1939<br>High | 1942<br>Low | 1943<br>High |
|-------------------------|--------------|-------------|--------------|-------------|--------------|
| Warner Bros. Pict.      | 18           | 3¼          | 6⅞           | 4¼          | 13½          |
| Paramount Pict.         | 28¾          | 5¼          | 14½          | 11¼         | 24½          |
| Canada Dry Ginger Ale   | 38¼          | 12½         | 20½          | 9½          | 21           |
| Jarvis (W. E.) Co.      |              |             | 18           | 5½          | 12¼          |
| Adams Express           | 22½          | 6¼          | 11½          | 5½          | 13           |
| McCrory Stores          | 24½          | 6           | 17½          | 10          | 14½          |
| Amer. Type Founders     | 20½          | 3½          | 8½           | 3¼          | 10½          |
| Asso. Dry Goods         | 24¼          | 4           | 10½          | 4¼          | 11           |
| Standard Brands, Inc.   | 16¼          | 6½          | 7¼           | 2¾          | 7            |
| Byron Jackson Co.       | 34½          | 13          | 17½          | 10          | 22½          |
| Central Acquire Assoc.  | 39¼          | 18½         | 30¾          | 16          | 20           |
| Congoleum-Nairn, Inc.   | 45½          | 15          | 30½          | 12½         | 21½          |
| General Baking          | 19½          | 6½          | 11           | 3½          | 8¼           |
| Crane Co.               | 56½          | 19          | 38           | 10½         | 19½          |
| General Cigar Co., Inc. | 52¼          | 20½         | 25¼          | 16½         | 27           |
| Amer. Bank Note         | 41½          | 10          | 17¾          | 5½          | 17           |
| Glidden Company         | 51½          | 13          | 24½          | 12½         | 20½          |
| Houdaille-Hershey "B"   | 27½          | 6           | 17¼          | 8¼          | 15¼          |
| Studebaker Corp.        | 20           | 3½          | 10           | 3¼          | 11¼          |
| United Drug, Inc.       | 16           | 4½          | 7½           | 4½          | 11¼          |
| Consolidated Oil        | 17½          | 7           | 9½           | 4½          | 11           |
| Barnsdall Oil Co.       | 35¼          | 10½         | 19½          | 8½          | 17½          |
| Pure Oil Co.            | 24½          | 8¼          | 11¾          | 7           | 17½          |
| Motor Products          | 38½          | 10½         | 19           | 6¼          | 14½          |
| North American Co.      | 34½          | 13¾         | 26½          | 6½          | 15½          |
| Plymouth Oil Co.        | 29½          | 15          | 24           | 11½         | 21           |
| Purity Bakeries         | 23¼          | 7           | 18½          | 9½          | 17½          |
| Remington-Rand          | 29½          | 9½          | 17½          | 7½          | 15½          |
| Stewart-Warner          | 21           | 6           | 12½          | 5½          | 12           |

lation for appreciation more attractive than during the previous bull market. Finally, the public on the whole has been more "inflation conscious" than during 1935-1936-1937—although the inflation line of reasoning was by no means absent from the late phases of the former bull movement, as evidenced by a very active commodity speculation.

None of the factors cited here, of course, precludes an intermediate reaction of 10 per cent or more in the industrial average—with or without bad news. In war the potentiality of news shocks is naturally to be reckoned with and is ever present. So is the potentiality of restrictive Government moves of one kind or another. A case in point is President Roosevelt's strong crack-down on price and wage inflation, announced as the writer is in the midst of constructing this article. Its full effect on the market remains to be seen, although the first impact is a sharp reaction.

But it provides a welcome test of the market's

# Political and Industrial Effects Of Changing Economic Controls

As the President Tosses an Anti-Inflation Bombshell

PART I

BY WARD GATES

**O**n the whole, our military problems in winning the war are being solved much more successfully than are the major economic-political problems on the home-front. Foremost among these—with many political ramifications — is economic stabilization. That term “economic stabilization” has an academic sound, but don’t let it lull you into indifference.

Behind it are hard realities — and explosive potentialities—that affect you personally and directly as a consumer or investor or business man.

Any way you look at it, to lose the battle for economic stabilization — surrendering to the fast-moving spiral of inflation — would be a disaster second only in importance to the disaster of losing the war. A national disaster; a political disaster to President Roosevelt and the Democratic Party; a personal disaster to many millions of people whose incomes would have no chance of keeping pace with the rise in the cost of living.

We haven’t lost this battle yet—but neither have we won it. Indeed, we had been giving ground, before the President’s recent stern executive order to “hold the line” on prices and wages.

It was more than eleven months ago that the President placed before Congress what he termed “a seven-point national economic policy designed to stabilize the domestic economy of the United States for the period of the war.” The most significant points of the seven were stabilization of wages and of all commodity prices, including farm prices.

Since then the wholesale commodity price index has advanced nearly 5 per cent; the cost of living by nearly 6 per cent; the retail cost of food by nearly 13 per cent; average price of farm products by 19 per cent; hourly earnings of industrial workers by about 12 per cent; and weekly earnings of industrial workers by about 17 per cent. What is more important, *all are today still in a continuing upward trend.*

The political pressure for inflation has been getting stronger in recent weeks, as the farm bloc in Congress pressed its drive for higher agricultural prices and important sections of organized labor stepped up its yammering for higher wages.

At this writing a show-down has come—but perhaps not the final show-down—between the Administration and the farm bloc in Congress. The President’s strongly worded veto of the inflationary Bankhead bill had immediate public support; and was promptly endorsed by Philip Murray and William Green,



speaking as presidents, respectively, of the C. I. O. and the A. F. of L.

Mr. Roosevelt pointed out that the Bankhead bill would add more than \$1,000,000,000 a year to the consumers' food budget; would give farmers "an unwarranted bonus at the expense of consumers" and would "set off an inflationary tornado." He sternly reminded Congress of its own responsibility to assist in maintaining economic stabilization, and this warning has now been amplified most vigorously in the statement accompanying Mr. Roosevelt's executive order on price, wage and salary stabilization. It will have unquestioned public endorsement and support.

Thus the immediate issue in a critical situation has been tossed back into the lap of Congress. The farm bloc is expected to retreat—at least temporarily. It was a political mistake on its part in the first place to press the drive for higher farm prices just at the time when John L. Lewis had brought his attack on the War Labor Board's wage stabilization policy to a peak in fighting for a \$2 a day wage increase for the bituminous and anthracite miners, plus additional adjustments that would make the actual increase in miners' income nearer \$4 a day.

On the other hand, it would be most naive to contend that the farm State members of Congress are just greedy and foolish men; or to expect that they will ignore the majority pressures of their constituents back home. The farm bloc in Congress is not operating in a political vacuum or going ahead on its own. It unquestionably speaks for a majority of the farmers.

While it may not in all respects be logical, the farmers have a peeve against the Administration's handling of the war farm problem. In truth, it has not been handled well. Tacit admission of that fact is had in the action taking chief responsibility for food control out of the hands of Secretary of Agriculture Wickard and giving it to Chester Davis, and in belated action to ease the farm labor squeeze by easing up on the draft and otherwise. Whether this partial appeasement of farm sentiment will be politically effective remains to be seen. It is questionable, as matters stand at present.

### New Deal Labor Policy

The farm country—and its representation in Congress—does not like President Roosevelt's "soft policy" with respect to organized labor. While the issue of higher farm prices is one of the two chief keys to economic stabilization, the other—and equally important—is wage stabilization. Despite all the talk, the accomplishment to date consists merely of having somewhat retarded the wage rise. Neither hourly wage rates nor the weekly earnings of factory workers have in fact been "stabilized."

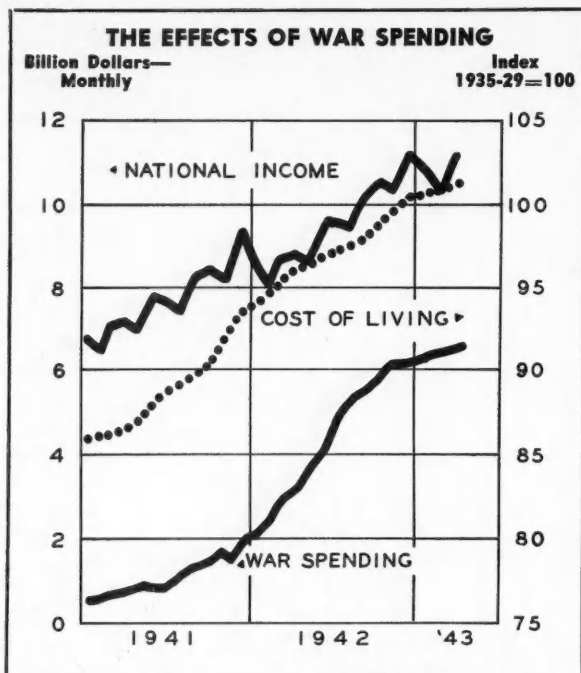


World-Telegram

Between the time the "Little Steel" formula for wage stabilization was promulgated in July, 1942, and January of this year—the latest month for which official data is available—the average hourly wage rate in the manufacturing industries increased from approximately 84.5 cents to 91.8 cents or by 8.6 per cent. Without exception, each and every month has seen a further gain; and no doubt the April figure—when released by the Bureau of Labor Statistics several months hence—will show hourly wages above January. Over the comparable period, average weekly earnings of industrial labor increased by \$4 or about 11 per cent, reflecting both longer hours at premium pay and higher hourly rate.

The Administration favors increased worker income for longer hours; and W. P. B. is proposing to establish wage incentives for increased production. That sounds rational enough—but the increased production from longer hours or from incentive pay will be in war goods; while the increased worker income, pressing upon the restricted market for consumer goods, will be inflationary.

Short of labor—and in many instances of fertilizer and repair parts for equipment—farmers on the whole will have to work fantastically long hours to have any chance of maintaining aggregate pro-



duction at last year's level—and probably will not succeed. Why then, they ask, are not farmers just as much entitled to incentive pay and premium rewards (in the form of higher prices) as is industrial labor? This also sounds rational enough—but higher prices inevitably spell higher food costs to the consumers and more pressure for still higher wages to "beat the cost of living."

Months ago the Administration tried to meet this dilemma by inaugurating a system of farm subsidies under which higher prices could be paid for increased production of those types of farm crops most badly needed, without passing the increase along to the consumers. The farmers howled this down. They don't want subsidies. Yet subsidies, both to get selective increases in production and to stabilize the cost of living, have been a cardinal and successful part of the stabilization programs in England and Canada. It is not an ideal remedy—and in England and Canada much more reliance is placed on fiscal anti-inflation controls than on subsidies—but is certainly preferable to an uncontrolled price-wage spiral that the President is now determined to halt in one way or another.

If Lewis wins a large pay increase for the several hundred thousand members of his United Mine Workers Union—and this matter is heading for final determination within the next few weeks—two results will promptly follow: (1) The Congressional farm bloc will enact legislation to raise farm prices and probably make it stick over any Roosevelt veto; and (2) other labor unions will follow the Lewis lead in demanding and getting higher wages.

Meanwhile both the A. F. of L. and the C. I. O. have made a shrewd political move by "laying off" in wage demands for the moment while urging a Government drive to reduce retail food prices to the level of last September 15. Although there has

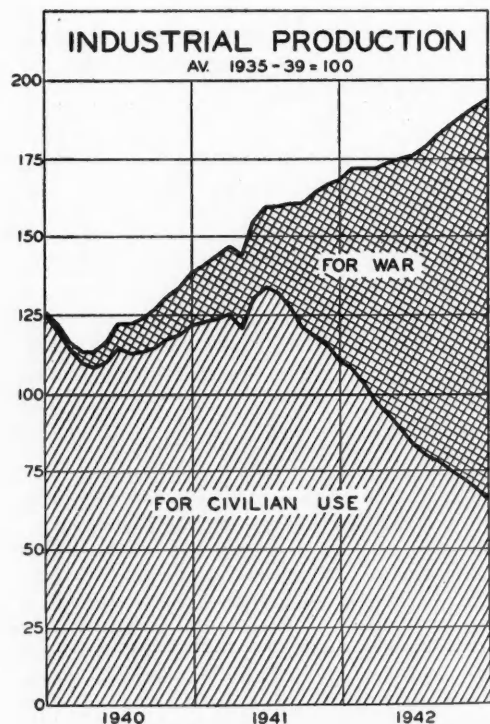
undoubtedly been considerable profiteering in foods—with actual prices well above the officially reported indexes—it is hard to see how so large a roll-back could be carried out without squeezing many food merchants into bankruptcy.

At any rate, while the Administration is momentarily "holding the line" against radical price inflation, it remains to be seen what the exact outcome of its tussle with Lewis will be.

One of the early moves of the farm block will be enactment, at least in the House, of the Hobbs anti-racketeering bill. The word "labor" does not appear in it anywhere—but it is labor union legislation all the same; and the C. I. O. and A. F. of L. are fighting it tooth and nail. If it reaches Roosevelt, his signature would reverse the previous Administration policy of opposing any and all restrictive union legislation but a veto would further alienate the farm vote. Thus a political "spot" for the President is being engineered.

It need hardly be said that all these matters are part and parcel of "Fourth Term Politics." One prominent union leader and adviser to Roosevelt in labor policy—Daniel J. Tobin, president of the A. F. of L. Teamsters Union—has publicly warned the Democratic Party (which today has no possible winning candidate for 1944 except Roosevelt) not to forget "how hungry it used to be."

"History," he said, "has a habit of repeating itself and unless the Democrats in power stick to their guns and stop crucifying the trade-union movement of the nation in all its divisions and branches, they will find themselves, as they did before from March, 1921, to March, 1933, a crawling, impotent minority."



To farmers—and many of the rest of us—this sounds very curious, indeed! Mr. Roosevelt and his Party have done more for the labor union movement than all preceding Administrations combined. In fact, he has given it much more than the union leaders themselves ever dreamed of getting at the inception of the New Deal at the polls in the bleak year 1932.

But, of course, Mr. Tobin is talking through his hat. Whether or not union-control legislation is

passed—and it is favored by majority public opinion and even by a majority of the dues-paying union members—Mr. Roosevelt, if he runs in 1944, will have the great bulk of the labor vote as usual. There is no place else for it to go.

As for the conservative Southern anti-Roosevelt bloc in Congress, it might well make it impossible for a fourth-term nomination to have any appearance of a harmonious or unanimous “draft,” but its defection—since Southern (*Please turn to page 48*)

## Part II

# Diverse Effects of Rationing on Food Securities and Related Issues

BY L. O. HOOPER

WE Americans always have regarded food as something that could be taken for granted. There always has been enough of it. Often we have felt that there has been too much.

It is unique, as well as ironic, that eight or nine years after we paid growers to kill the little pigs and began to pay the farmer not to raise wheat, we have to present a ration book when we go to the store to buy meats, fats, butter, cheese, canned vegetables, canned fruits, canned soup, and even the lowly bean.

There's no point in going into the errors of the past. After all, those mistakes were made with an overwhelming majority consenting, and no one could have foreseen the present abnormal world situation. The most that can be said is that they originated, like most economic heresies, from confusing prices with prosperity; and that they were a part of the strange idea that scarcity is a better thing for business than abundance. The purpose of this study is to outline briefly the causes for the present shortage of food, to consider the outlook for food supplies during the remainder of the war period and the early years of peace, and to consider how the anticipated conditions may influence the investment status of some of the leading food industries and



Cushing

representative food companies. There are, however, a good many more possibilities and probabilities in the food situation than there are certainties.

Causes of the present food situation are so numerous that no attempt will be made to exhaust them. The first one arises from the fact that America, a nation which normally *imports* food on balance, has become an *exporter* on balance. In the five years before the war, when our crops were perfectly enormous, the United States imported about

two and one half times as much food as was exported. Our "unfavorable" foreign trade balance in food, moreover, has been increasing steadily ever since World War I. This startling revelation demands some explanation. It is found in the fact that we normally are very large importers of sugar, coffee, tropical fruits, nuts, spices, vegetables, certain oils, certain cereals and many edible luxuries; and that in late years we have not been particularly heavy exporters of meat and wheat.

In the present emergency, we find ourselves shut off from the usual imports by a shipping shortage. We are refraining from using the available shipping for the transportation of coffee from Brazil and Colombia, sugar from the West Indies, bananas from Central America, and nuts from Brazil in order that we may use the ships for purposes of war. At the same time we find it necessary to feed millions of non-productive soldiers and sailors, to take care of an important part of the food requirements of our hard-pressed allies, and to "bribe" neutrals through exploitation of their food needs. The very ships which we, in peace time, use to import food are now being used to export it.

The second cause develops from the obstacles in the way of increasing production as much as we could increase it in time of peace. Food, in spite of all the mechanism of the farm which has occurred in the past two generations, still is a labor product. We have a labor shortage. That labor shortage is increased by the draft. It is also increased, perhaps even more importantly, by the fact that the war industries can afford to pay higher wages than the farmer can earn either by working for himself or by working on the farm for other farmers. It is not commonly known in the great cities that hundreds of

millions of dollars worth of food and cotton went unharvested in the fields and orchards of the land last year because there was no one to gather it. Most foods, especially vegetables and fruits and beet sugar, are low wage crops. Most canneries pay low prices and employ low wage labor. Everyone knows what has happened to low wage labor.

### Changes in Demand

A third factor in the food situation is the peculiar nature of the demand for food. As men and women work harder, they eat more. The manual laborer consumes more food than the sedentary worker. Higher family income, and most people now have it, means "a better table." When a man is in the armed forces he has an appetite far and away greater than when he is in civilian life. Governments recognize, too, that food is a morale builder—that armies fight on their stomachs and that civilian populations act better under stress if they are well fed. That, of course, means a lot in countries like Spain, North Africa and Turkey: and later it may mean much in France or Italy.

We don't hear much about a fourth influence, but it is important. The Government has been accumulating considerable stores of food in warehouses and elsewhere in view of the possibility that it will be harder to buy next year. This takes certain goods out of the market—notably canned goods and other relatively non-perishable foods which are concentrated and easy to store and keep.

A fifth influence is the practical manner in which price ceilings have worked out. Farmers have withheld cattle from the market because they are dissatisfied with prices, contributing to the shortage of

### These Companies Can Turn Out More Food

|                              | Recent Price | 1942 Net | 1942 Div. | Quality of Stock | Nature of Product  |
|------------------------------|--------------|----------|-----------|------------------|--------------------|
| Corn Products .....          | 57           | \$ 2.75e | \$2.60a   | High Grade       | Syrup, oil, starch |
| Penick & Ford .....          | 59           | 4.25e    | 3.00      | Good Grade       | Syrup, oil, starch |
| Armour & Co. \$6 Pfd. ....   | 56           | 20.85    | None      | Speculative      | Meats              |
| Swift & Co. ....             | 26           | 2.89     | 1.50      | Investment       | Meats              |
| Swift International .....    | 34           | 2.80     | 2.00      | Good Grade       | So. Am. meats      |
| Wilson & Co. ....            | 7            | 2.70     | None      | Speculative      | Meats              |
| United Fruit .....           | 67           | 4.08     | 2.00a     | Investment       | Bananas, sugar     |
| Cuban Atlantic Sugar .....   | 14½          | 4.63     | 2.50      | Speculative      | Sugar              |
| Cuban-American Sugar .....   | 10           | 1.68     | 0.75      | Speculative      | Sugar              |
| West Indies Sugar .....      | 14           | 4.12     | 0.50      | Speculative      | Sugar              |
| Glidden Co. ....             | 20           | 1.70     | 1.30      | Fair Grade       | Veg. oils, paint   |
| Best Foods .....             | 11½          | 0.31     | 0.60a     | Improving        | Margarine, flour   |
| Chickasha Cotton Oil .....   | 17           | 1.97     | 1.00a     | Speculative      | Veg. oils, etc.    |
| Wesson Oil & Snowdrift ..... | 25           | 1.87     | 1.00      | Speculative      | Veg. oils, etc.    |
| Continental Baking .....     | 7¾           | 1.46     | 0.50      | Speculative      | Bread              |
| General Baking .....         | 8½           | 1.02     | 0.45      | Speculative      | Bread              |
| General Mills .....          | 88           | 6.06     | 4.00      | Investment       | Flour              |
| Pillsbury Flour .....        | 24½          | 1.89     | 1.00a     | Good Grade       | Flour              |

a—Indicated rate, not 1942 payment.  
e—Estimated.

NOTE: The fiscal years of most of these companies are not calendar years; per share earnings in all cases are for the latest fiscal year.



Alvis-Chalmers

**Food shortage will force change in farm equipment production restrictions.**

meat. Pigs have been kept on the farms until they have become hogs, as is quite evident from the sizes of pork loins now in the market. Collateral influences have been the shortage of cars in which to ship fresh vegetables and maldistribution of quotas of food caused by sudden shifts in the population. This year we may see a smaller supply of ice cream and fluid milk because of the government's lease-lend requirements for cheese. Farmers may be handicapped by inability to get new farm machinery in the quantities needed at the time it is needed. Certain types of nitrogen fertilizers will be in scant supply because the government needs the nitrogen for war, and this will tend to reduce yields. The spread between acres planted and acres harvested will be much wider than usual because there will be less labor to take care of the weeds and fewer people to garner the crop.

So far nothing has been said about Mother Nature. She always holds our stomachs in the palm of her hand. Not many people realize how good she has been to us in recent years. The weather has been generally favorable to crops in every year since 1937 and 1938. There has been a rapid and steady increase in the yields of almost everything, and the animal population on farms has been and still is growing. A few figures will stress the generous crops of recent years.

In 1932 we packed 4,024,000 cases of string beans; since that year we have never packed less than 5,500,000 and the 1941 pack was 11,673,000. In 1941 we packed 26,109,000 cases of sweet corn

against 14,567,000 in 1939. Our green pea pack in 1941 was 28,573,000 cases against 16,074,000 in 1939 and 10,367,000 in 1932. Fish landings in 1941 were 530,503,000 pounds against 422,747,000 in 1940, and now are decreasing very rapidly because of high wages for seafaring men in other industries and because of the submarine danger. The comparatively large size of recent wheat, rye, corn, soy bean and potato crops is common knowledge. We also know how much more popular fresh vegetables have become in recent years, and that most of them are grown hundreds of miles away from the principal markets involving the use of now scarce motor trucks and freight cars.

But if you go back over the Department of Agriculture's crop figures for many years you will discover that a series of years of abundance more often than not is followed by a series of years of scarcity, and vice versa. This principle has been true, with variations, ever since the days of Joseph of Egypt—and probably long before that. The unpleasant fact is that the rhythm of crops at present is against abundant supplies of food for the next few years; we have had too many good seasons just recently.

The outlook for food, therefore, is not good. It may be summed up by saying that it is an outlook for more of the same tendencies we have seen during the past year—only for more violent trends in the same direction. In the next 12 months we will have less abundant reserves and inventories to draw on, less production coming in, a further decline in imports, a bigger demand from our armed forces, and probably a bigger overseas civilian population to feed—especially if our armed forces win some of their territorial objectives. In fact, over the short term, the more successful we are in gaining military objectives the less we will have to eat at home. And this situation will not end with the armistice or cessation of hostilities. We shall have to feed much of Western Europe or lose the peace after winning the war.

### Sources of Supply

Food, therefore, is where we can find it. We are going to eat what we can get and be thankful. For the duration, and for some time thereafter, our wives and the restaurants are not going to be able to pick and choose so much between different kinds of food; they are going to have to buy what they can get.

This involves a search for food. Where is it? We must scour the country and the world for things to eat. Those who can supply the means of sustenance are going to be able to demand a good price for it; and those who can assist in the production of food, directly or indirectly, are going to be encouraged, through rich rewards, to make their contribution to the tables of America and the world. There should be money in the food business for those who can deliver the food.

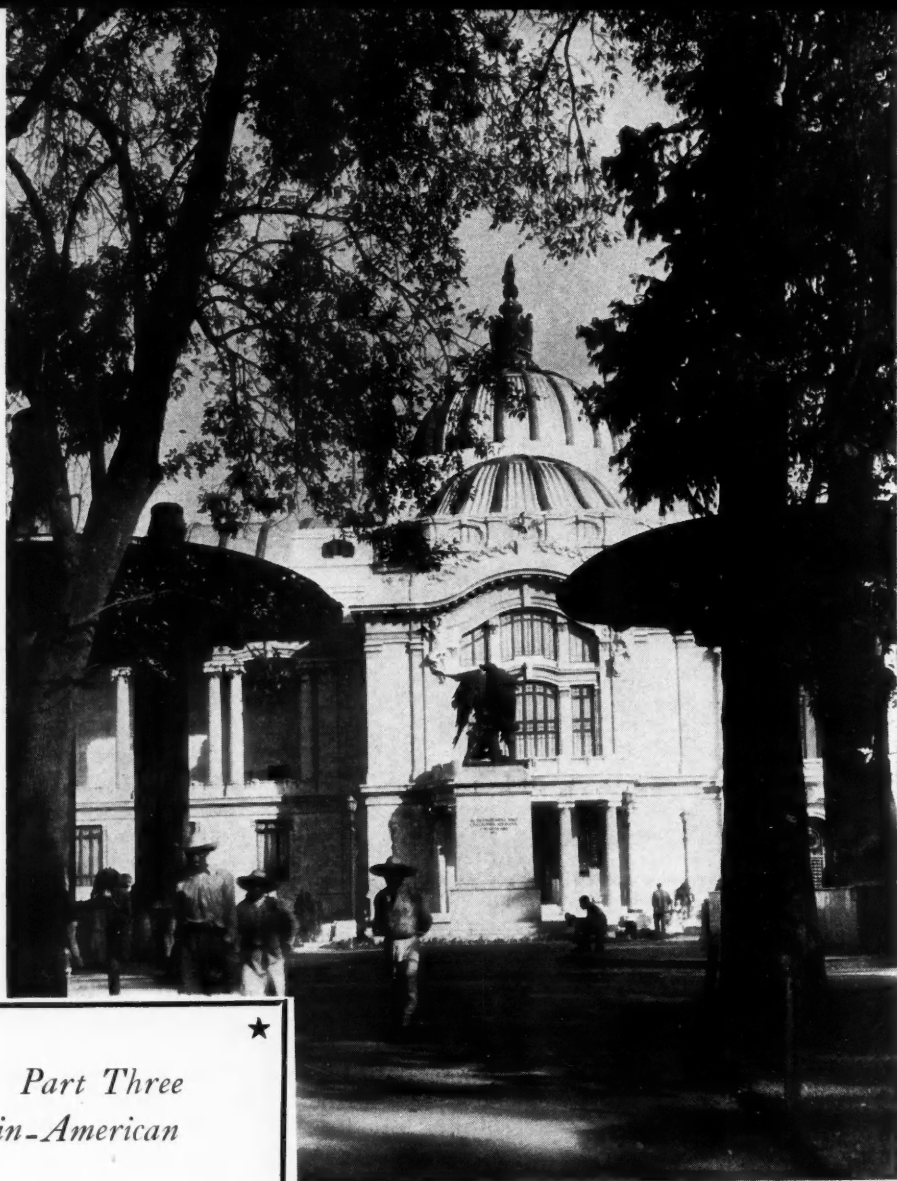
A number of sources of supply, rather large sources, are open.

In the first place, the Western Hemisphere's population of meat animals, beef cattle, hogs and sheep, is above normal. Both in (*Please turn to page 52*)

# Mexico, Central America and Cuba

From an  
Investment  
Standpoint

BY V. L.  
HOROTH



Mexico City

Cushing

## Part Three of Our Latin-American Series.

Our "Good Neighbors" of Central America and the Caribbean area, like most countries of South America, are undergoing most significant economic changes. In Mexico, especially, the economic revival approaches the spectacular; but the widening opportunities for foreign capital investment in this and other Latin-American countries are not without qualifications. In this concluding article of the series the author again provides the penetrating analysis which has made previous articles so useful.

A BRIEF announcement appeared recently in the newspapers to the effect that by the mid-summer an over-land connection between the United States and the Panama Canal will have been established. This does not mean that goods will soon be able to move to and from Panama in large volume. On the contrary, the overland route is likely to remain for a long time an emergency project and to be of economic importance only in its northernmost and southernmost reaches; in the north providing the means of transportation for coffee from Guatemala and Salvador, and in the south serving as a feeder of surplus foodstuffs from Costa Rica for the Panama Canal region.

Shipments from the north will first have to negotiate the slow and undependable standard gauge railway through Mexico, badly in need of modernization. From Suchiate they will move across a new bridge opened last year and then over a narrow gauge international railway through Guatemala and Salvador. From the railhead in that country, ship-

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APRIL

ments will travel by motor over a macadamized, military "pioneer" highway, work on which is being pushed with great haste in the most mountainous part of Costa Rica.

Economically there has really been only limited need for such a highway. The six small republics of Central America and Mexico trade but little with each other. It is the strategic considerations more than anything else that have prompted the establishment of an overland connection with the Panama Canal, and it is the strategic reasons that are forcing us to regard the whole region, for which the new name of "Middle America" has been coined, in an entirely new light.

### Strategic Importance

In this region even a small island in unfriendly hands would be a potential danger to the Panama Canal and to our security. Hence it is imperative that the governments in this part of the world be friendly to us and cooperate with us politically and militarily. As elsewhere in Latin America, economics is the key to the political considerations. This explains why in return for the cooperative policy of the "Middle America" countries we are under obligation to assist them economically to make up for the disruptions that result from the war.

Our present political and economic relations with Mexico are a good illustration of subordinating old grievances and disputes in the interest of a larger issue of common security and war effort. Certainly the settlement of the oil dispute whereby Mexico agreed to pay \$24 millions for oil holdings and \$40 millions for confiscated lands, the value of which together has been estimated at at least \$200 millions, leaves much to be desired from our point of view. Much the same may be said about the more recent proposal under which Mexico would settle its dollar debt of \$236 millions, on the basis of 20 cents on the dollar.

### Mexican Development

On the other hand, viewed from the Mexican point of view, the creation of a healthy peasant-farmer class out of a landless farm worker class, by distributing some 60 millions acres of land, will give the country a broader economic base and may even result in a greater political stability.

As it is, Washington and Mexico City have been cooperating very closely. Mexico was one of the first Latin American countries to declare war and round up Axis agents, especially in lower California, where Japanese fish canneries could have well served as potential submarine bases. Most of the Mexican surplus products, among which are some badly needed non-ferrous metals, are being sent almost exclusively to this country. On our part, we have been supplying the rapidly expanding Mexican industries with equipment and raw materials, and we are also to furnish more modern equipment for the Mexican Army which recently adopted the system of compulsory training.

Paradoxically, private enterprise has been in the last two years relatively freer in Mexico than in this country or Europe, for the totalitarian measures have not been pushed there as far. In fact, promotional activity is being encouraged. New and enlarged industries may now freely import raw materials and equipment and in the Federal District they are exempted for 5 years from the tax on industrial and commercial activities.

The present boom, which incidentally has been marked by a rise in quotations of local securities up to 300 per cent, by the redundancy of money and by the rapid expansion of bank deposits, dates back to the inauguration of the present President, Avila Camacho, in 1940. The subsequent easing of the expensive and sometimes extravagant social and economic reforms, brought about first the return of large amounts of Mexican capital expatriated during the regime of Lazaro Cardenas. Later, American capital came in to modernize and expand mines and to establish the production of some of the products which we used to get from Southeastern Asia.

Agricultural production, which fell off during the Cardenas period, has also made a come-back, aided by higher prices and probably likewise by the move whereby the individual farmer rather than the community obtained title to the distributed land. Larger crops meant that foreign exchange that previously had to be used for the purchase of foodstuffs abroad, could now be released to buy industrial equipment.

With the farmer and the miner more prosperous, industry has been stimulated, and since outside competition has practically disappeared, domestic industries — like elsewhere in Latin America — have had the internal market for themselves. A promo-

### "Middle America" Statistics

(All figures in millions of National Currency)

|  | 1938 | 1939 | 1940 | 1941 | 1942<br>Latest<br>Avail. |
|--|------|------|------|------|--------------------------|
| <b>Gold Reserves (end of year)—</b>            |      |      |      |      |                          |
| Costa Rica (colon) .....                       | 1.1  | 2.7  | 4.5  | 4.4  | 4.6                      |
| Guatemala (quetzal) .....                      | 4.0  | 4.7  | 5.7  | 6.7  | 6.7                      |
| Haiti (gourde) .....                           | ...  | 3.5  | 4.6  | 9.3  | 12.8                     |
| Mexico (peso) .....                            | 34.1 | 37.8 | 56.2 | 55.7 | 40.9                     |
| Salvador (colon) .....                         | 13.2 | 16.5 | 16.5 | 16.5 | 24.2                     |
| <b>Foreign Exchange Reserves (end of year)</b> |      |      |      |      |                          |
| Costa Rica .....                               | 6.0  | 9.0  | 1.0  | 9.1  | 58.7                     |
| Guatemala .....                                | 2.1  | 2.5  | 2.1  | 3.6  | 9.5                      |
| Haiti .....                                    | ...  | 9.0  | 8.5  | 14.2 | 13.2                     |
| Mexico .....                                   | ...  | 11.7 | 59.3 | 30.6 | 87.3                     |
| Salvador .....                                 | 3.2  | 3.2  | 1.6  | 4.5  | 10.5                     |
| <b>Commercial Bank Deposits (end of year)</b>  |      |      |      |      |                          |
| Costa Rica .....                               | 44   | 47   | 53   | 56   | 89                       |
| Guatemala .....                                | ...  | 2.5  | 2.3  | 2.1  | 2.5                      |
| Mexico .....                                   | 375  | 452  | 601  | 727  | 846                      |
| Salvador .....                                 | 4.4  | 4.0  | 3.2  | 4.9  | 7.4                      |
| Cuba .....                                     | 139  | 128  | 128  | ...  | ...                      |
| <b>Budgetary Expenditures</b>                  |      |      |      |      |                          |
| Costa Rica .....                               | 36   | 40   | 44   | 36   | ...                      |
| Cuba .....                                     | 73   | 76   | 79   | 78   | 106                      |
| Dominican Republic .....                       | 12   | 12   | 12   | 12   | ...                      |
| Guatemala .....                                | 14   | 11   | 10   | 10   | 10                       |
| Haiti .....                                    | 30   | 30   | 29   | 26   | 26                       |
| Honduras .....                                 | 12   | 12   | 11   | 11   | 12                       |
| Mexico .....                                   | 503  | 582  | 624  | 647  | 707                      |
| Nicaragua .....                                | 9    | 14   | 23   | 26   | ...                      |
| Panama .....                                   | 19   | ...  | 22   | 30   | ...                      |
| Salvador .....                                 | 20   | 20   | 24   | 22   | 23                       |
| <b>Exchange (in U. S. cents).</b>              |      |      |      |      |                          |
| Mexico (peso) .....                            | 22.1 | 19.3 | 18.5 | 20.5 | 20.5                     |
| Costa Rica (colon) .....                       | 17.8 | 17.8 | 17.8 | 17.8 | 17.8                     |
| Salvador (colon) .....                         | 40.0 | 40.0 | 40.0 | 40.0 | 40.0                     |
| Cuba (peso) .....                              | ...  | ...  | 90.0 | 97.5 | 100.0                    |
| Nicaragua (cordoba) .....                      | 20.0 | 20.0 | 20.0 | 20.0 | 20.0                     |

tional boom followed and during the latter part of 1942, a new enterprise was being launched almost daily. Provided that Mexico can secure the necessary equipment in this country, her self-sufficiency in industrial products will be remarkable indeed in the future. Important progress has been made in chemical industries (including rayon and plastics) and in machinery and hardware lines. Lately Mexican industries began to sell in the United States and are venturing also in exports to Central America.

But while the Mexican situation looks more promising than ever, it would be hasty to admit that all the major problems have been solved. While the carrying out of costly social experiments has been retarded for the time being, the labor unions are powerful and the Government has had to proceed carefully, especially in handling the railroad situation. Extensive rehabilitation of some of the key lines of the Mexican National Railways is absolutely essential now that the movement of freight has about trebled in volume. We have already agreed to send the necessary technicians and equipment for such rehabilitation. As to the industries, they fear that overstaffing during the present boom may result in prohibitive labor guarantees after the war.

Mexico has probably profited from the situation created by this war more than has any other Latin American country, except Brazil. The relative freedom of enterprise and the fact that the political stability of the country has increased, now that army control is centralized and transport facilities extended, should attract foreign capital. The 1943 budget, though some 40 per cent higher than the pre-war budget, is about balanced, by increase in consumption and income taxes. Business income taxes have been raised from 15 per cent in the lower brackets to 60 per cent and up on incomes over \$100,000.

It is quite likely that the present industrial boom will continue, though once the war is over and outside competition again makes itself felt, the new Mexican industries may find themselves overextended and unable to reduce costs sufficiently because of the resistance of well-entrenched labor. Incidentally, a very generous social security plan (with employer contributing 6 per cent) was passed last January.

It has already been mentioned that Mexico proposes to settle its dollar debt roughly on the basis of one peso for each dollar of bonds outstanding. Payment of interest would be made by means of annuities apportioned among the different classes of debt on a fixed schedule, and on a scale varying with the type and security of the different issues. The Government would purchase interest obligations due from 1923 to 1942 at the rate of 1 per cent of face amount, and the obligations due prior to 1923 at the rates of 1/10 to 2/10 of one per cent. The railway debt is to be dealt with in another agreement.

The phenomenal rise in Mexican bonds since 1940 will be seen from the accompanying table.

Principal Dollar Bonds of "Middle America"

| DESCRIPTION                                      | Outstanding | Price Range |             |            | April, 1943 |
|--|-------------|-------------|-------------|------------|-------------|
|  |             | 1940        | 1941        | 1942       |             |
| <b>Costa Rica,</b><br>7% of 1926, due 1951....   | 5,362,000   | 21 - 13     | 19½ - 11½   | 19¼ - 12½  | 28½         |
| <b>Cuba,</b><br>4½% of 1909, due 1949            | 6,469,000   | 101½ - 93   | 101½ - 96   | 103½ - 100 | 102         |
| 5½% of 1923, due 1953                            | 16,210,000  | 104 - 98    | 104½ - 99½  | 107 - 100¼ | 104         |
| 4½% of 1937, due 1977                            | 80,519,000  | 62 - 51½    | 78 - 49½    | 83 - 68½   | 86¼         |
| Pub. Wks, 5½%, due 1945                          |             | 81½ - 70    | 106 - 73    | 115 - 102½ | 120½        |
| <b>Dominican Republic,</b><br>5½%, due 1961..... | 8,012,000   | 75¼ - 49    | 69 - 52     | 73½ - 63   | 85          |
| 5½%, due 1969.....                               | 8,280,000   | 75¼ - 49    | 63 - 52½    | 73½ - 61¾  | 85          |
| <b>Salvador, 8%, due 1948</b> ....               |             | 75¼ - 49    | 69 - 52     | 73½ - 63   | 31          |
| <b>Haiti, 6%, due 1952(A)</b> ....               | 6,844,000   | 90 - 58     | 71½ - 38¼   | 68 - 55    | 75¼         |
| <b>Mexico, Irreg.,</b><br>4½%, 1943, asstd.....  |             | 4½ - 7½     | 7 - 3½      | 10½ - 5¼   | 11½         |
| 4%, 1904-1954, asstd....                         |             | 4¼ - ¾      | 7 - 3½      | 10½ - 5¼   | 11          |
| 5%, 1945   |             | 1½ - 1      | .....       | 5¼ - 5     | 13          |
| 6%, 1913-1933, lar. asd.                         |             | 4½ - ¾      | 7 - 4½      | 14½ - 6    | 13½         |
| <b>Panama,</b><br>3½%, due, 1967, (B)....        | 3,903,000   | .....       | 105½ - 102½ | 104 - 101½ | 104½        |
| 3¼% - 3½%, due 1994..                            | 9,767,000   | .....       | 70½ - 51    | 75 - 57½   | 79¾         |

in Costa Rica and Nicaragua, where coffee, in addition to bananas and some minerals, is the chief mainstay of economic activities. In Guatemala and Salvador, which of all Central American countries have advanced the farthest on the road to industrialization, business has been very active, with textile industries particularly showing a promising future. Panama has been in a class for itself. Though her exports have declined, her imports have expanded and business is booming as a consequence of the large expenditure of the American military forces. The City of Panama has accumulated large enough dollar balances to begin to retire some of its bonded indebtedness. On the other hand, the price level has skyrocketed and Panama is facing a real inflation problem.

Opening of the Pan-American highway should eventually stimulate internal trade between individual Central American republics, while the building of feeder roads should develop some of the remoter areas with considerable economic promise. The introduction of new products, rubber, manila hemp, tung oil, rotenone and others, pushed strongly by the United Fruit Company, should also be helpful in increasing the purchasing power. And there will be money coming in from the tourist traffic.

The six Central Amer- (Please turn to page 52)

In the six Central American republics south of Mexico, Guatemala, Salvador, Honduras, Nicaragua, Costa Rica and Panama, the situation varies from country to country. Honduras, primarily a banana exporting country, has been hard hit, and the plantation workers have had to be employed on emergency projects — chiefly highways — financed by the United States. The situation is better

# The Allies Shape World Recovery

## The Keynes and White Plans for Currency Stabilization Compared — Superiority of the American Plan Manifest

BY GEORGE B. COLLINGWOOD

THE British government has formulated its long anticipated scheme for an international currency, as advanced by its most celebrated monetary thinker, Lord Keynes. The anarchy of currencies after the last war, the long period of monetary inflation in the conquered countries, the less disquieting but still drastic inflation in many victorious countries, still haunts the memories of men anxious for sound finance. That it must not recur is an axiom. Inflation and monetary disorders brought about the ruin of savings, of a sturdy middle class, and, by its ravages, accustomed men to think in extremes.

The roots of totalitarianism are to be sought largely in the monetary chaos that followed World War I. That no country enjoying sound finances has ever experienced tyranny or social revolution, can be readily demonstrated. For this reason, the British government, more directly interested in maintaining European tranquillity than even ourselves, has advanced the proposal for an international currency, termed "Bancor." This new external currency (not to be used for transactions or savings within any country) is to be guaranteed by the member nations in proportion to the volume of external trade experienced by them in pre-war years. That is, Great Britain having enjoyed 9 billion dollars in imports and exports per annum would have a stake 50% larger than the United States whose similar international trade averaged but 6 billions in that period.

The British argue that this is logical, since an international currency is not concerned with the volume of internal trade, nor with the mass of internal capital, but with the clearing of transactions between member states. But, since the flow of money from one country to another is also determined by "invisible" exports and imports, the problem is not so simple. The British not only do more business than any other country in foreign trade: their returns from external invest-

ments, their insurance receipts, and, above all, their shipping income, are the largest in the world. For example, their income from foreign investments has often been five times their exports. In other words, Britain, the purchaser of a sixth of the world's goods, would be the paramount partner in this international bank. More than that, as she is the foremost gold producer, and since the Bancor's final reference will be gold, she would provide most of the current gold to be used in the scheme. And, as she has a certain ascendancy in colonial trade, in India, and (through the Ottawa agreements) a special stake in Dominion trade, her influence over such an international bank, under Lord Keynes' plan, would be tantamount to domination. Now, the British argue, this has no bearing on the plan, for this bank would

not regulate its member countries, it would merely lower or raise the value of their internal currencies, according to their holdings of Bancor. A country with a persistently favorable balance of payments, would have its currency depreciated: those with a persistently unfavorable balance, would have their currencies appreciated. Hence a France, whose currency declined for years on an unfavorable balance, would have its franc appreciated, and thus an equilibrium would be sought. The United States and Britain, if in too favorable a position, might have their money appreciated, that is, in terms of Bancor, the international money.

But the British scheme, which is praised by superficial observers for its ease and simplicity as compared to the American, is not so automatic. It provides that the International Bank issuing Bancor, may suggest to member countries such revision of their tariff policies, or other factors, as may aid their position in Bancor holdings. Now "suggest" is a very pleasant word, but (*Please turn to page 54*)



Harry D. White, U. S. Treasury Monetary Authority



Prof. John Maynard Keynes,  
British Economist

# DYNAMIC OUTLOOK FOR RAYON STOCKS -In War and Peace

BY J. C. CLIFFORD

**A** VIGOROUSLY growing newcomer during the last decade, the American rayon industry under the impact of war-born necessity has definitely come of age and found its niche among the nation's leading industries with a product ranking second only to cotton as the most important textile fibre consumed in this country.

This is a far cry from the original conception of rayon as an inexpensive luxury and somewhat flamboyant substitute for natural silk. However, rayon at the outset enjoyed a ready public acceptance which grew so rapidly that demand frequently outran production, necessitating steady expansion of production facilities. Progressive management, up-to-date merchandising and promotional activities, low prices and, above all, constant improvement in quality, appearance and usefulness assured increasing consumer acceptance of rayon on its own merits.

Thus the substitute soon outdid natural silk which found itself progressively threatened as rayon conquered ever new territories, was put to ever new uses, found ever widening markets. The war and its attendant dislocations did much to push rayon into new prominence. With the cessation of silk imports from Japan and almost complete diversion of nylon from civilian to military uses, rayon made further strides not only in the already strongly held apparel field but also in the hosiery field where silk and nylon previously were supreme.

No less important is the rapid expansion of production and use of spun yarn from staple fibre, making an excellent substitute for wool and flax, and rayon's increasingly successful race with cotton as the favored fibre for tire cords. Until recently, domestic production of staple fibre lagged considerably behind that abroad, and with demand constantly on the up-grade, sizeable imports were necessary. However, dependence on imports is now materially

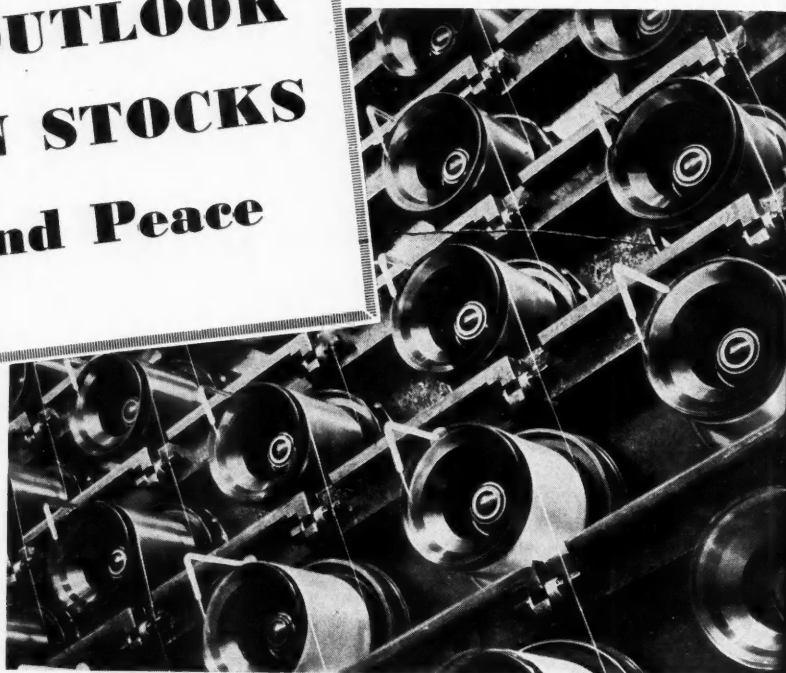
lessened. Thus imports represented only 9% of consumption in 1941, against 50% in 1937.

After years of steady growth, the rate of expansion is now slowing down, almost entirely due to inability to obtain needed equipment and machinery because of urgent war demand for metals. Installed capacity is currently estimated at about 545 million pounds filament yarn, against 460 million pounds in 1940 and 390 million pounds in 1937. Capacity for the production of staple fibre was increased to 150 million pounds from 110 million pounds at the end of 1940. The entire 1942 rayon output reached the record high of 625 million pounds as against 573 million pounds in 1941 and 471 million pounds in 1940. Of the 1942 total, about 573 million pounds consisted of filament rayon yarn, compared with 451 and 390 million pounds respectively in 1941 and 1940. The remainder of 155 million pounds was mostly staple fibre which in 1941 amounted to 122 million pounds and to 81 million pounds in 1940.

This compares with staple fibre output in 1932 of only 1.1 million pounds, rising in 1936 to 12.3 million, in 1937 to 20.2 million, in 1938 to 29.8 million and to 51.3 million pounds in 1939, reflecting the constant and rapid growth of this particular branch of the industry.

Demand for both rayon yarn and staple fibre far exceeded the supply last year. Not only has there been a much greater call for regular rayon products but filament yarn is increasingly needed to replace silk and nylon in civilian goods while staple fibre has taken the place of wool in many cloths. Moreover, rayon has gone to war with a vengeance.

*Industrial Rayon Corp.*



Last year Army needs for rayon amounted to over 25% of the yarn production; the Navy also required considerable poundage and 4% of the annual output has been set aside for export to Latin America to help bolster our Good Neighbor policy.

### Important War Role

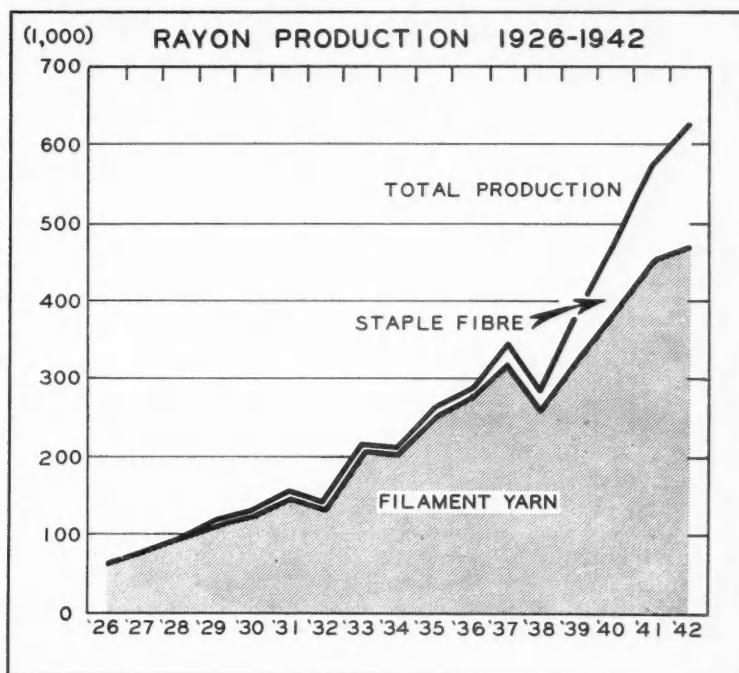
Most important among military needs is the Army's growing demand for high-tenacity yarn for tire cords. The Government, through conversion of production facilities, is presently aiming at increasing their output from fifty to one hundred million pounds annually and a further step-up to 150 million pounds is envisaged when our synthetic rubber program swings into high gear. Additionally, rayon yarn is used for parachutes, shroud cords, self-sealing gas tanks, electric wire insulation on warships and war planes, for tarpaulins and many types of clothing. In short, demand, both military and civilian, is only restricted by capacity. Even tighter than the yarn supply situation is that for staple fibre which must now fill the gap created by restrictions on the use of new wool.

Assured of excellent markets in war and peace, and with few conversion problems when the industry returns to a peace-time basis, rayon shares naturally offer interesting possibilities. In common with industrial earnings in other fields, war-time earnings of rayon concerns are bound to be affected by war-time factors but satisfactory results are indicated for the duration. Profit margins should continue well maintained as price ceilings are adequate and no increase in raw materials costs is foreseen. However, conversion of about one third of their facilities to the production of low-priced high-tenacity yarn for Government use may somewhat lower dollar volume of the viscose producers. Acetate makers of late have experienced difficulties in obtaining adequate allocations of needed chemicals. With further expansion of production facilities for the present precluded, important sales gains cannot be expected and a moderate decline of 1943 gross appears likely. The extent of tax increases—if any—and of provisions for contingencies will, however, be the most important determinants of final 1943 net.

As to the post-war outlook, different and interesting vista open. In spite of steady expansion in the past, the current capacity is by no means held excessive. Rather, the industry is looking forward to continued growth and development in line with widening demand and further diversification of its products. Recent important improvements, the fruits of unremitting research, have opened new

fields which owing to the exigencies of war could not be immediately or fully exploited. It is here that the industry hopes to progress most after the war. This applies especially to staple fibre and extra-strength yarns. Important progress in these fields has already been made under the spur of war necessity. Just to what extent these gains can be extended—and new business retained—after the war, remains to be seen as stiff competition from other fibres, now replaced by rayon, must be expected with the return of normalcy. However, prospects are generally judged optimistically. Rayon, as a chemical product, enjoys great competitive advantages over natural fibres. Its output can be controlled and sharp price fluctuations usually avoided as raw material prices are fairly stable and selling prices are normally geared closely to costs. Furthermore, improved equipment and manufacturing economies accruing from greater output are likely to extend the secular downtrend of rayon prices, thereby strengthening the competitive position of the industry.

But there are other factors which enter the situation. Take f.i. rayon cords now heavily favored by the Army and, even before the war, successfully used in heavy duty tires. Rayon cords in tires are undoubtedly here to stay but another question is how



far they will be able to replace cotton cords after the war. This it would seem to depend first of all on consumer acceptance of a higher-priced tire for everyday use, i.e., not heavy duty purposes. Also on the post-war status and importance of our synthetic rubber industry and its participation in the tire business, on the success of the cotton industry in developing cotton cords comparable in strength and efficiency with rayon cords, and last but not least on

price relationships between rayon and cotton cord tires, of importance especially in the huge passenger car field. Quality which launched rayon into the tire cord business, counts heavily in its favor while price may tip the scale for cotton.

Then there is staple fibre, an ever more versatile blending material with wool, linen, cotton, etc., which has become a great favorite especially in the apparel industry. Of late it has been widely used as an efficient substitute for wool, due to shortage of shipping to import sufficient raw wool, and especially abroad great strides have been made in its use and adaptation. Once the factors responsible for the present curtailment of the use of new wool are eliminated, the wool growers can be expected to make strenuous efforts to regain their market. Price and versatility in its utilization certainly favors staple fibre and quality may eventually become a moot point, what with constant progress in improving the fibre. However, habit, tradition, certain deep rooted conceptions of quality standards may turn out to be unexpected and perhaps important aids to wool growers in their competition with staple fibre. Still, the latter can be depended upon to become an ever more important factor on its own merits, especially in the women's apparel field.

As to filament rayon yarn, the industry's most important product, its post-war future is both secure and promising. Tremendous progress has been made in improving both viscose and acetate yarns, and their markets in the past few years have become greatly enlarged. A third type, cuprammonium yarn, exclusively made by Bemberg, has remained a small factor although it met with great

popularity due to its high quality, great elasticity and silk-like features. Viscose yarn, because cheapest, is especially used for knitting goods but lately, owing to improvements in quality and uniformity, has found wider markets among the weaving trade. Acetate yarn is especially suitable for the manufacture of sheer goods and demand for dress materials jumped sharply in recent years. Acetate output in 1941 was no less than 41% of the total rayon yarn production compared with only 8% in 1930. This trend is likely to continue for some time. While cost differentials formerly favored viscose yarn, these are now virtually eliminated and selling prices of both yarns are now closely competitive.

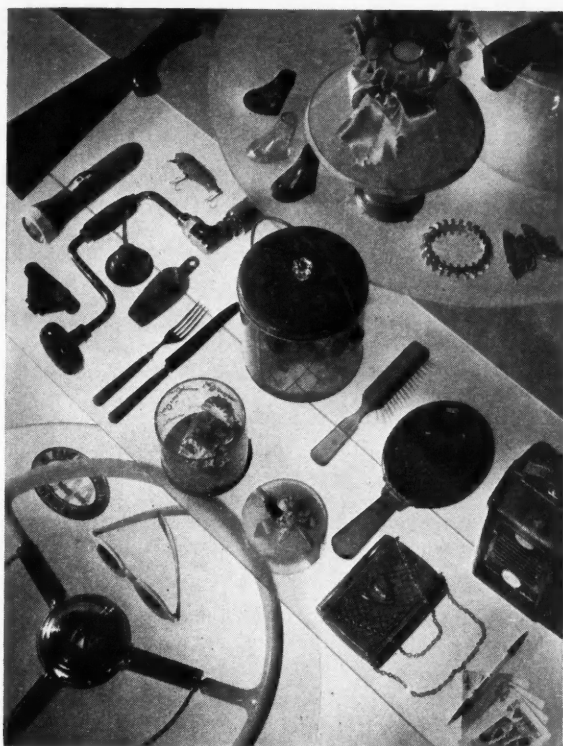
### Disturbing Elements

Gratifying as it is to the rayon industry, the very great expansion it underwent, and is still likely to undergo, both in point of capacity as well as diversification of products and intensification of their use, carries in itself a hazard heretofore hardly known to the industry. It is infinitely greater sensitivity to the often violent cyclical fluctuations of the traditionally volatile textile industry. To the extent of its greater importance to the textile field, the rayon industry henceforth is bound to share these fluctuations, having become a major component of the textile industry. It will be increasingly sensitive to changes in consumer income and general economic conditions, and especially in slack times when demand may fall considerably below its swollen capacity, there may be outbursts of serious intra-industry competition with their accompanying dislocations. These possibilities are of longer-range character but nevertheless very real although they hardly apply to the immediate post-war years which are likely to profit from the tremendous pent-up demand at home and possibly large shipments abroad.

Also there is the question of other synthetic fibres which, while still mostly in the development stage, may eventually compete not only with the natural fibres they were meant to displace but with rayon as well. Nylon, successful silk substitute, has gone to war but with the return of peace may hamper the further development of extra-strength rayon yarns. Glass fibre, casein fibre and staple fibres made from redwood bark and peanut protein may eventually compete with rayon staple fibre. Indeed there is such a plethora of new synthetic fibres, none of course as



Manufacturing Rayon Moire cloth in one of the ultra-modern plants of Celanese Corporation.



Some of the many products made from Celanese plastics.

strongly entrenched as rayon, that it is quite impossible to envisage their future status and prospects.

While no material expansion of capacity may be called for after the war when most of the capacity now working on war orders will be freed for civilian production, the rapid pace of new discoveries and technical improvements may necessitate relatively frequent investment in new machinery or plant changes. This may affect earnings to some extent although no estimate of such expenditures is possible today.

Summing up, it may be said that the post-war outlook for the rayon industry is bright and promising but not entirely without potential disturbing elements. With keen competition among the various fibres, natural and synthetic, a foregone conclusion, fully satisfactory operating returns may be expected only under favorable general economic conditions. Among textile shares, leading rayon stocks have come nearest to occupying investment status as good earnings in more recent years combine with exceptional growth prospects. The past year witnessed substantial buying of rayon equities and numerous portfolios hold some stocks of this important group, primarily for the long pull. During the market upturn in progress since last year, rayon shares have been well out in front. While our Combined Index

has advanced 83% over the 1942 low, the average of leading rayon equities rose 90%. Similarly, our Combined Index stands now 5.5% above the 1939 high while the average of leading rayon shares is 21.6% above this high. Our Index is still 38% below the 1937 high but the average of leading rayon shares is only 22.6% lower. To judge by current prices and yields, the market undoubtedly has discounted the war possibilities inherent in this industry as well as part of the post-war prospects. To what extent the latter has occurred, is difficult to say but it seems reasonable to assume that the market has by no means gone all out to discount future prospects.

The 1942 results of leading rayon companies were generally in line with earlier estimates.

AMERICAN VISCOSE CORPORATION, first ranking unit of the industry and largest producer of viscose yarn and staple fibre with an annual production capacity of 225 million pounds, reported substantial gains in sales and operating income as the result of recently enlarged plant capacity. Net sales rose 12.1% to \$90.32 millions, leaving profit before taxes of \$20.60 millions against \$14.38 in the preceding year. Costs increased only 5.8%, reflecting more economic operations, but taxes rose steeply (116%) with advancing operating income, leaving net profits of \$5.59 millions equal to \$2.53 per common share (excluding \$1.15 millions post-war credit of excess profits tax) compared with \$7.99 millions or \$3.92 per share in 1941. Including the above post-war credit, net amounted to \$6.74 millions or \$3.20 per share. Profit margins in 1942, though still somewhat below the industry level, showed a noticeable improvement, the result of a higher rate of machinery activity.

The company's financial position continued exceptionally strong. Despite expenditures of \$4.40 millions for additions to plant and equipment, net current assets increased \$2.51 millions to \$50.80 millions. Current assets were \$70.40 millions including \$8.81 millions cash, \$25.72 millions marketable securities and \$14.52 millions tax notes. Current liabilities amounted to \$19.59 millions. During 1942, the company sold 207.7 million pounds yarn and staple fibre. This compares with a total U. S. consumption in 1942 of 620.6 million pounds.

In the wake of the completed expansion program, dollar sales in 1943 may (*Please turn to page 51*)

#### Statistical Recorded Rayon Companies

| Name of Company                | 1936/39            | 1936/39             | Recent Earnings |        |       | Recent Dividends |      |      |
|--------------------------------|--------------------|---------------------|-----------------|--------|-------|------------------|------|------|
|                                | Av. Net<br>Per Sh. | Av. Div.<br>Per Sh. | 1940            | 1941   | 1942  | 1940             | 1941 | 1942 |
| Am. Viscose Corp .....         | 2.34               | None                | 3.85            | 3.92   | a2.53 | None             | 1.00 | 2.00 |
| Celanese Corp. of America..... | 2.05               | b1.06               | 3.39            | 3.43   | 3.42  | c1.25            | 2.00 | 2.00 |
| Industr. Rayon Corp.....       | 1.17               | 1.27                | 3.15            | 3.04   | 2.64  | 2.00             | 2.50 | 2.50 |
| No. Amer. Rayon Corp.....      | 2.97               | 2.00                | 3.18            | 3.34   | E2.50 | 2.50             | 2.50 | 2.25 |
| American Semberg .....         | 2.41               | None                | 1.92            | d0.003 | E2.25 | None             | None | None |
| American Enka Corp. ....       | 5.28               | 4.31                | 5.11            | 4.76   | E5.00 | 5.00             | 4.50 | 3.50 |
| Tubize Chatillon .....         | D0.51              | None                | e1.24           | 0.86   | E1.00 | None             | None | None |

E—Estimated. D—Deficit.

a—Exclusive post-war credit of \$1,156,000.

b—Does not include stock dividend of 1/12th share in 1940 and 1/40th share in 1939.

c—Plus stock dividend 1/12th share.

d—After special charges of \$1,475,607.

e—After contingency reserve equal to —.34 per share.

# Happening in Washington

Charles Phelps Cushing Photo

By E. K. T.

**President Roosevelt's** "hold the line" order on price and wage inflation is a political bombshell that should go far to clear the air. The Farm bloc will now subside—but wait to see if Roosevelt action on wages is as tough as Roosevelt words.

**Enough, on Time,** promises to be the record of industrial alcohol production for wartime needs. The 1943 outlook, based on WPB data, shows supply of this essential product will not be, as first forecast, "too little, too late." Estimates of minimum production this year run to 490 million gallons, with

maximum use set at 510 million gallons (there was a stock pile of 54 million gallons at the year's beginning).

**Shipping Damage** claims last year amounted to one-half cent for each dollar of freight revenue and are continuing their downward course, the ODT finds. Twenty years ago, loss and damage claims took nearly five times that share of revenues. Reflected are not only increased efficiency on the part of shipper and carrier, but also realization that not only do loss and damage waste shipping space, but also often they destroy items irreplaceable in wartime.

**Yukon's Yield** of minerals in a second "rush," less dramatic than the original trek, will supply ores this year from placer operations and dredges abandoned years ago as worked out, the Department of Interior forecasts. Tin, mercury, tungsten, nickel, copper, platinum—in fact almost the entire catalog of minerals—are coming out of the ground that yielded the once kingly, now relatively lowly, supply of gold. Alaska again is repaying, with interest, its original seven million dollar cost.

**Repair Parts** for motor trucks are dwindling to the point where Congressional investigation to force relief is indicated. Senator Pat McCarran of Nevada, will sponsor that step. In the Baltimore area alone, ODT finds, lack of replacement parts is tying up 25 per cent of motor carrier facilities. Complete statistics are unavailable, but the Eastman office believes western states will be found even harder hit. Relaxation of WPB rules is sought.

**National Income** reached the record level of \$119.8 billions in 1942 and the value of production topped all previous records, at \$151.6. Products for war purposes accounted for 32 per cent of the total as against 10 per cent in 1941. Based on present legislation and policies, Secretary of Commerce Jesse Jones sees an eventual \$140 billion national income, a gross national product of \$180 billion.

## Washington Sees:

Failure of the Senate to muster sufficient votes to over-ride the President's veto of the Bankhead farm parity bill was a direct blow to John L. Lewis.

Had Congress acted otherwise, Lewis and his United Mine Workers would have had fashioned for them a weapon with which to beat back the opposition to a \$2-a-day wage increase demanded by the miners. If it were not inflationary to boost the income of agriculture (by the devious method of ignoring certain of the factors that contribute to that income), it could be argued with validity that a boost in mine pay would be equally without danger to the economy of the country.

Sectional interest, plus political motive, ordinarily could conspire to amass votes sufficient to overcome the veto. Those votes would be available if the issue were divorced from the mine pay problem. But in this instance Lewis was the silent, even unwilling, helpmate of the President. The recommittal robbed the bushy-browed labor chief of a potent argument; drove him back to his now most likely compromise: full pay for hours put in from mine portal to mine portal, instead of compensation only for work performed at the actual "diggings."

AS  
NE  
GO TO  
PRESS

Insight to the thinking of military and production strategists on the course of the war is aided by recent Washington announcements. Discernible has been an easing off that invites optimism.

The "sound but lean" economy for the home front means some civilian goods, refrigerators for example, are going back into production. Inescapable conclusion is that the nation is over the production hump on many items. Otherwise, with an eight per cent recession in war production, shifting of more facilities to civilian goods couldn't be countenanced.

Housing, too, moves in the direction of private enterprise with banks and investors encouraged to re-enter the field under the urge of preference ratings and materials allotments. War worker occupancy remained a condition, but the invitation to private financing is significant.

And, Anthony Eden's visit to the White House was essentially for post-war talks, not military in nature. Roles of the four Allied powers in the future world were assayed, the problem of stabilizing the post-war French Government was examined, placating China after Churchill's omission was worried over.

But most significant, perhaps, was the call of delegates for an international food conference with an agenda heavy with after-the-war topics. Russia will be represented.

House votes on tax methods were straws in the wind. They proved not that the Congressmen love pay-as-you-go less, but that they hate the Treasury method more. The Carlson-Ruml amendment was defeated by fewer votes than were cast against recommitting the bill.

Proposal by Senator John Bankhead that the Treasury pay for newspaper space used to advertise war securities will split Congress as well as the press, probably doom the legislation.

Bankhead's Alabama is rural — and the lion's share of the lineage would go to weekly and small daily newspapers. The plan is designed to offset loss of normal advertising revenues, but the sponsor flares up at the suggestion of "subsidy."

There's little in the bill for papers in the larger zones of circulation and influence, and the press, having fought paternalism and subsidy on the broader front has a precedent to follow. Publisher groups will "think twice" before acting.

Rubber Czar William M. Jeffers is a believer in the Napoleonic theory that an army "moves on its stomach," and will carry it into civilian supply. He has ordered the guayule rubber program curtailed to minimize interference with food-for-victory. Tires will give way to food in the face of the dominant need. Much rich land, tilled and irrigated for guayule, will go back to original farm owners or be offered for lease.

The war contract broker is slated to join the ranks of extinct professions. Disclosure that one manufacturer's agent netted more last year than the corporation that employed him spotlighted what Congressmen regard as a flaw in Federal procurement.

Taxpayers money appropriated for material has been going into brokers tills in ever-increasing amounts. Statistics on fees paid over the years trace a trend that Congress intends to check. They are: 1939, \$357,067; 1940, \$587,523; 1941, \$1,936,799; 1942, \$4,407,370.

For what it may be worth in a nation whose organized labor is reluctant to observe a 48-hour work week and whose farmers compete with the military forces for manpower, O W I has culled these facts from German official reports: prevailing work-week in Nazi industry, 56 to 66 hours; average number of hours a week worked by farm labor, 78.8.

The United States Treasury marked an important date on its calendar April 7—The 10th anniversary of the return of legalized beer—and reviewed with satisfaction the financial results of the past decade: Federal beer taxes collected up to March 1, 1943, \$2,728,188,578.

The seething issue of discriminatory freight rates by geographical regions has boiled over and is sending Congress headlong into another intersectional strife. Rates on commodities moving out of New York, for instance, are as much as 75 per cent below rates on the same goods from some southern origins.

Uniform freight rates, say southern Congressmen, are the key to solution of transport inequities. But that over-simplifies the problem. Differing levels are the result, not the cause, of conditions existing in the high rate, low cost-of-production zones.

Called to Washington to testify before the Truman Committee, John L. Lewis seized the forum to send speeding shafts toward his preferred target, U. S. Steel Corporation, and to grumble about "war-swollen profits." It was no surprise that Lewis told but one side of the story.

In 1941, U. S. Steel paid its workers 628 million dollars, whereas 1942 payroll was 783 million dollars—an increase of 25 per cent; in 1941 federal taxes were 169 million dollars, in 1942 they amounted to 204 million dollars—an increase of 21 per cent. Owners of preferred and common stock received the same amount each year—70 million dollars. And carried forward for future needs was 56 million dollars in 1941, and 12 million dollars in 1942—a decrease of 72 per cent.

Conversations between Washington and London economic experts has produced one suggestion which even the "planners" here are hesitant to accept. Export trade by industries, instead of by individual firms, is among Britain's export plans.

London may go farther. Nationalizing of the export trade has been hinted and Washington reaction asked to a policy which declares "exporting for the sake of exporting will no longer be countenanced if it is against national or international interests."

National service legislation is unlikely unless, and until, the need for universal draft becomes measurably greater. Virtual certainty that it would be given "pocket veto" at the White House safeguards this forecast.

Manpower Chief Paul V. McNutt wants voluntary system prolonged (except for men of military age); and his friends and foes, both, on Capitol Hill, favor giving him more rope—for differing reasons. Powerful religious groups and women clubs will fight it to the end, would hamstring it in the courts.

Old-timers recall retirement to private life of many Senators and Representatives, quarter of a century ago, because they were blamed for zooming Federal appropriations—members of the "Four Billion Dollar Congress."

By June 1944, Secretary Morgenthau predicts, the national debt will have risen to \$210,000,000,000. The cost of servicing that load will be four billion dollars annually. Total Federal government receipts in 1936 was four billion dollars.

# Investment Audit of THE ERIE RAILROAD

Considering the Positions of All Securities From  
Mortgage Bonds to the Common Shares

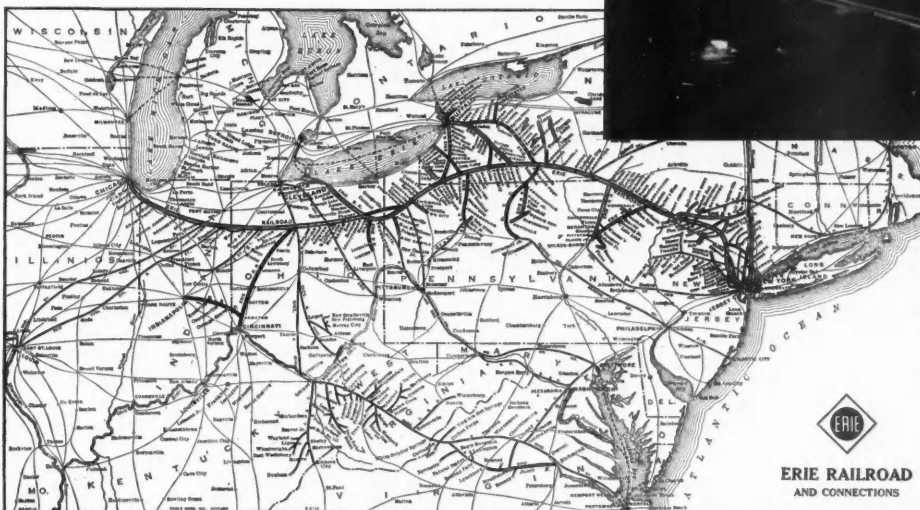
BY PIERRE R. BRETEY

WHEN in 1942 Erie paid a \$1.00 dividend on its Common and Certificates of Beneficial Interest, many were the jibes of the financial scribes. For one of the perennial jests of Wall Street had been that under no circumstances would Erie Common ever pay a dividend. Yet few were the financial writers who emphasized that Erie had undergone a rather drastic reorganization and that the dividend actually paid was to an entirely different issue—one which had been distributed to holders of the old refunding bonds. No miracle had come to pass. On the contrary, the dividend was a tribute to the thoroughness of the reorganization, for which thoroughness the ICC is entitled to full credit. The accompanying table will attest to the effectiveness of the reorganization.

It is true, of course, that the reduction of both debt and charges was not as drastic as some of the reorganizations of the larger Western roads where charges were reduced some 75 to 80% — or as drastic as the Soo and Western Pacific where in the former case fixed charges have been entirely eliminated, and in the latter, assuming full pay-

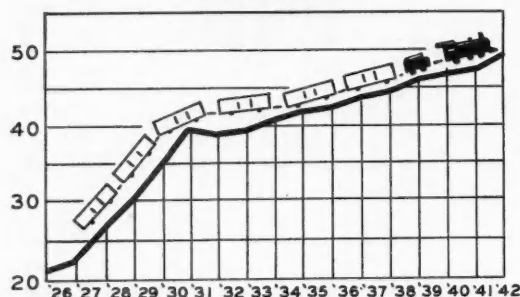


H. W. Pechner



The present Erie is modernized in equipment, improved in roadbed and new in capitalization. The system is compact and the small amount of short-haul branch mileage is a financial advantage.

# **FREIGHT PERFORMANCE** Excluding Locomotives and Tenders Gross Ton Miles Per Train Hour, (Thousands)



ment to the R.F.C. and the non-issuance of any first mortgage bonds, fixed charges will also have been entirely eliminated. Yet a reduction of over 53% in charges is sufficient to re-establish the Erie's credit especially when taken in consideration with the relatively steadier earnings available for fixed charges in the past decade.

The Erie is one of the four important New York to Chicago trunk lines. Its system is compact, principally main line, and consists of some 2,242 miles of road. It is essentially a freight carrier with 88% of the company's revenues being derived from freight in 1942. In point of tonnage, coal and coke is the largest item averaging almost 40% of the whole, with manufactures and miscellaneous a close second. In point of revenues, the latter of course is of greatest importance. As of Dec. 31, 1942, the company owned 789 locomotives, 26,141 freight cars, 788 passenger cars, 237 units of floating equipment, including 5 ferries and 12 tugs, and 1,083 units of service equipment.

## **Short Receivership**

According to industrial surveys completed in 1940, equipment, roadway, track and structures were adequately maintained. However, because of difficulty of securing certain materials in the war period the ICC has permitted the road to charge to maintenance of way and structures expenses in 1942 the sum of \$200,166 and to create a cash reserve to provide for such work when materials become available.

Erie has more than kept pace with the territorial growth of its region and has done uniformly better than all class I roads.

On January 18, 1938 the Erie, laboring under the almost impossible burden of \$14 million annual fixed charges, and being refused assistance by its parent company, Chesapeake & Ohio, finally sought refuge of the Courts. After one of the shortest receiverships on record, the Erie emerged on Dec. 22, 1941 with a streamlined capitalization.

Ordinarily there is a normal sequence of events when a road becomes bankrupt. Prior to actual bankruptcy, the average road skimps on mainte-

nance. Property becomes run down. Following bankruptcy large sums are spent for rehabilitation. Then operating efficiency is restored and is reflected in more normal maintenance and transportation ratios. This cycle was not adhered to by Erie. First of all, earnings were reasonably well maintained in the 30's and there was little need of skimping on maintenance. When finally Erie did go into receivership, in only one year, 1938, did the Erie increase its maintenance and transportation ratios. Even in 1939 while still in receivership, operating ratio was reduced to normal proportions, indicating the absence of necessitous large scale rehabilitation.

This in essence, is the background of the Erie, its traffic, distribution of revenues and reorganization experience. We now turn to a consideration of the individual securities of the road, and of its future prospects.

There are but two senior issues of the Erie, if we eliminate the \$10 million serial note issue currently being distributed and also eliminate the undisturbed underlying obligations. These two issues include the Ohio Division 1st 3¼'s of 1971, rated A, and at current levels of 100 offer a yield of 3.25%. This is an excellent investment issue, a first lien on 551 miles of road, which mileage contributes 44% of system gross income. Average earnings of this division in the period 1931-1940 inclusive was \$6.5 million as

## **Operating Ratio Percentages**

|      | Maintenance | Transportation | Operating |
|------|-------------|----------------|-----------|
| 1929 | 34.4        | 36.5           | 75.6      |
| 1932 | 31.7        | 36.4           | 75.7      |
| 1935 | 28.1        | 37.5           | 72.9      |
| 1937 | 28.4        | 37.8           | 72.7      |
| 1938 | 32.1        | 41.3           | 80.7      |
| 1939 | 28.9        | 37.8           | 73.1      |
| 1940 | 27.4        | 37.6           | 71.2      |
| 1941 | 25.5        | 38.5           | 69.4      |
| 1942 | 25.6        | 33.0           | 63.5      |

compared with \$690,028 of charges. In view of this coverage, and in view of the recent Supreme Court decision reaffirming absolute priority, this bond would appear to be entitled to a higher rating. It is an issue well worth inclusion in investment portfolios.

The other issue is the larger, 1st consolidated 4's, 1995 rated B-1 plus, selling currently at 96½ to yield 4.16% to maturity. There has been satisfactory coverage in the past ten years, charges being earned in excess of twice in all but two years. In only one year, 1938, did earnings fail to cover charges in full. Expenses were extraordinarily large incidental to heavy rehabilitation of the properties. Fixed charges of the Erie, as presently constituted, now absorb but 8.5% of average annual pre-war gross and compare favorably with other higher credit rails in this respect—such as Union Pacific and the Pocahontas rails. The road may now well be characterized as one almost impervious to depression influences and when seasoned, this mortgage

## Earnings from 1933 Through 1942, Applied to New Capitalization and Adjusted to Provide for Serial Maturities of \$500,000 per Annum

|           | Fixed Charges | Times Covered | Bal. Avail. for Inc. Int. (a) | Income Interest | Inc. Int. Times Earned | Overall Coverage | Bal. Avail. for 393,800 Pfd. Shrs. (b) | Pfd. Div. Requirements | Earn. Per Shr. of Pfd. | Bal. for Common | Bal. Per Com. Shr. (c) |
|-----------|---------------|---------------|-------------------------------|-----------------|------------------------|------------------|--|------------------------|------------------------|-----------------|------------------------|
| 1933..... | \$6,784,311   | 2.30          | \$6,254,053                   | \$2,269,033     | 2.75                   | 1.66             | \$3,728,103                            | \$1,969,000            | \$9.46                 | \$1,759,103     | \$0.71                 |
| 1934..... | 6,784,311     | 2.07          | 4,658,406                     | 2,269,033       | 2.05                   | 1.49             | 2,132,456                              | 1,969,000              | 5.41                   | 163,456         | .07                    |
| 1935..... | 6,784,311     | 2.04          | 4,495,315                     | 2,269,033       | 1.98                   | 1.47             | 1,969,365                              | 1,969,000              | 5.00                   | 365             | .....                  |
| 1936..... | 6,784,311     | 2.48          | 7,521,504                     | 2,269,033       | 3.31                   | 1.80             | 4,999,554                              | 1,969,000              | 12.68                  | 3,026,554       | 1.23                   |
| 1937..... | 6,784,311     | 2.08          | 4,729,006                     | 2,269,033       | 2.08                   | 1.50             | 2,203,056                              | 1,969,000              | 5.59                   | 234,056         | .09                    |
| 1938..... | 6,784,311     | 0.58          | Def.                          | 2,269,033       | Def.                   | Def.             | Def.                                   | Def.                   | Def.                   | Def.            | .....                  |
| 1939..... | 6,784,311     | 1.79          | 2,759,604                     | 2,269,033       | 1.21                   | 1.29             | 233,654                                | 1,969,000              | 0.59                   | Def.            | .....                  |
| 1940..... | 6,784,311     | 2.06          | 4,588,524                     | 2,269,033       | 2.02                   | 1.48             | 2,062,574                              | 1,969,000              | 5.23                   | 93,574          | .04                    |
| 1941..... | 6,784,311     | 3.21          | 12,389,232                    | 2,269,033       | 5.46                   | 2.31             | 9,863,282                              | 1,969,000              | 25.04                  | 7,894,282       | 3.22                   |
| 1942..... | 6,784,311     | 3.68          | 15,592,954                    | 2,269,033       | 6.87                   | 2.66             | 13,067,004                             | 1,969,000              | 33.18                  | 11,098,004      | 4.53                   |

(a) Prior to income interest there is set aside a capital fund of \$1,625,000, a sinking fund of \$300,000 for the consolidated mortgage bonds, sinking fund of \$180,000 for the Ohio division bonds and annual charge of \$500,000 for serial maturities or a combined total of \$2,605,000.

(b) Sinking fund of \$256,917 (1/2 of 1%) annually on income bonds is deducted prior to earnings available for preferred stock.

(c) Equity capitalization consists of 446,101 shares of common and 1,999,700 certificates of beneficial interest representing equivalent number of common shares in escrow until Jan. 1, 1945.

should rate among the highest credit issues in the rail industry. This is also an issue to be added to the investor's portfolio, offering both greater than average yield, and possibilities of moderate appreciation.

Following these two mortgage issues is a General Income 4% issue, maturing in 2015. Lien position is fair, junior to the two mortgages described above. There has been full coverage for this issue except in 1938, when, as previously explained, the road spent heavy sums for rehabilitation purposes. On an overall basis coverage was satisfactory. It should be borne in mind that earnings as set up in an accompanying table are after setting aside the following deductions, none of which are considered fixed charges by solvent roads: Capital Fund, \$1,625,000; Sinking Fund 1st Consol. 4's, \$300,000; S. F. Ohio Div. 1st 3 1/4's, \$180,000; Serial Note Maturity, \$500,000. These charges are actually in excess of Income interest requirements of \$2,269,033 per annum.

There are two factors operating to influence Erie's equities—both preferred and common stocks. . . . One of these is favorable, the other adverse. These twin factors are (1) large Sinking Funds and serial maturities which parenthetically serve to operate as a stabilizing market factor for the bonds and (2) the incidence of taxation, full brunt of which falls on the equities. As already noted, Sinking Funds and serial note maturities total \$980,000 per annum (included in this figure are serial maturities of \$500,000 per annum for at least 9 years) without considering the Sinking Fund on the Income bonds of \$256,917 or \$1,236,917 in all, and additionally the probable retirement of certain maturities without resort to refunding. The company has to meet \$12,902,000 in maturities up to 1950.

Combination of these reasonably heavy Sinking Funds and bond retirements, should serve to reduce charges ahead of the equities. Management of this road has expressed the hope that it can continue to reduce charges at an accelerating rate. Interest savings from operation of Sinking Funds and serial maturities combined should result in savings of some \$50,000 per annum, without considering savings of \$148,000 when the 1943 maturity is met out of Treasury Funds, and further savings when other maturities are met. Without attempting to forecast

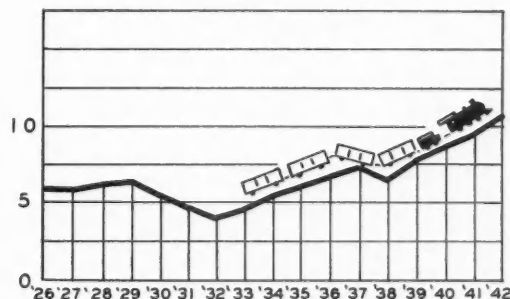
use of additional funds to purchase its obligations in the open market (it has been estimated that if the Erie used \$10 million of cash to purchase its 4 1/2 % Income bonds at an average price of 70, it could retire about 1/3 of the issue and effect annual savings in charges of some \$700,000) it would appear that fixed charges in the next 10 years should be reduced to well below \$6 million and Income interest reduced to \$2 million or less. For 1943 alone charges should be reduced by at least \$500,000. Such savings in charges could, at the end of the 10 year period, be translated into additional earnings of \$2.50 or more on the preferred or a little over 40 cents or more per share on the common.

The incidence of taxation is a serious one for all railroads, and for Erie the total last year was \$19,505,471 as compared with \$9,175,224 in 1941 and \$6,984,241 in 1940.

In connection with the recent proposed sale of \$14 million of 3 1/2's (sale of which was enjoined by the ICC and a \$10 million serial note issue substituted instead) the management stated:—

"No Federal Income Taxes were paid in respect of the Company's earnings for any of the years 1933 to 1940, inclusive, except for the year 1936 for which a compromise settlement was made in the amount of \$30,000. In this connection it should be noted that fixed and contingent charges varied

### FREIGHT PERFORMANCE Net Ton Miles Per Car Day (Thousands)



### Comparison of Operating Revenues — With Industrial Production

1923 - 1925 Equals 100

|      | Erie | Great Lakes Region | All Class I Roads | Industrial Production |
|------|------|--------------------|-------------------|-----------------------|
| 1923 | 108% | 106%               | 103%              | 101%                  |
| 1929 | 105  | 101                | 103               | 126                   |
| 1932 | 60   | 51                 | 51                | 67                    |
| 1935 | 61   | 54                 | 56                | 100                   |
| 1937 | 68   | 63                 | 68                | 130                   |
| 1939 | 66   | 60                 | 65                | 124                   |
| 1941 | 86   | 79                 | 88                | 179                   |

between \$15,111,835 and \$13,598,436 during the nine calendar years 1933-1941 and were reduced under the Reorganization Plan and by debt retirement so that total fixed charges and contingent interest charges were \$9,053,344 in 1942. If such reduced charges had been in effect during the years 1933 to 1941, inclusive, the Company would have had to pay substantial amounts as income taxes.

"The Company uses the invested capital method in computing its liability, if any, for excess profits taxes. In computing its liability on 1942 income, the Company had substantial carry-over credits from prior years, so that its tax return will not show any liability for excess profits taxes on 1942 income. These carry-over credits are practically exhausted and, consequently, if 1943 income remains at present levels and if the tax law is not changed, the Company will be liable for a substantial amount of excess profits taxes on 1943 income."

Additionally, there have been considerable uncertainties with regard to taxes due the State of New Jersey. The Treasurer of the Erie delivered to the State Treasurer (N. J.) in 1941 and 1942, checks representing a settlement of delinquent back taxes in accordance with legislation passed in 1941. The Attorney General is attacking the constitutionality of this legislation. Depending on the outcome of the case, Erie might be subject to additional taxes of \$4,850,000.

For 1943 Income Taxes of the road should reach higher levels than in 1942. Already in January of this year, taxes as accrued were 125% larger than a year ago. It would appear that due to heavier tax burdens earnings on the common may well be rendered from \$4.53 per share to \$3.25 per share, despite probabilities of an increase of from 15 to 20% in gross for the entire year.

We now turn to a consideration of the two equities of the Road. First is the company's Preferred Stock. At the end of 1942 there were 393,800 shares outstanding. Reference to accompanying table will indicate reasonably good coverage on this Preferred Stock. Only in two years, 1938 and 1939, did the company fail to yield the full \$5.00 requirement. Ultimately, should the Road continue its policy of debt retirement and reduce fixed charges in line with our forecasts, we would anticipate high investment rating and as a consequence higher prices for this issue. At the present time the stock is yielding 10½% at current levels of 48. The yield afforded is excellent, and we believe that the stock is entitled to sell at considerably higher levels over the longer term.

There are two limiting factors applicable to Erie common, the first being the psychological handicap of the recent receivership. In time, however, this limiting factor will be overcome, and in fact, it is being overcome even at this writing as evidenced by the excellent market action of the stock over the past 12 months or more.

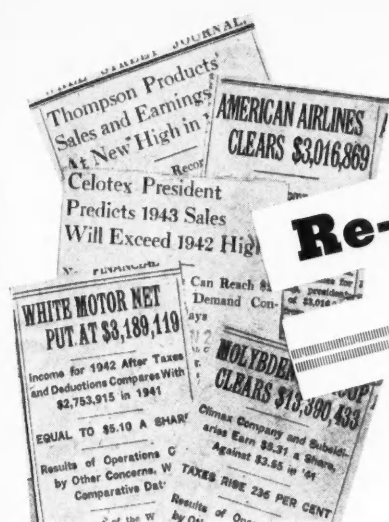
The second factor is more fundamental in character, namely, the dependence of the road upon coal traffic. Revenues from anthracite and bituminous coal declined from \$26 million in 1929 to \$16.7 million in 1941. The bulk of this decline occurred in anthracite, revenues declining from \$15.6 million to \$8.3 million in this interval.

There is no question but that the secular trend of coal production and coal consumption has been downwards for the past fifteen years. There is reason to believe, however, that this down-trend has been halted, if not actually reversed due to the change within the oil industry itself. If in the post-war period we are to have the development of oil chemistry as promised, and thereby use oil for butadiene (the fundamental raw material of synthetic rubber), fuel oil prices may rise to levels far greater than anticipated but a short time ago. Such a change might well mark a revolution in the oil industry as decisive as that in the early days of the automobile industry when gasoline displaced kerosene as the most important consumer product of the petroleum industry.

Additional fundamental factors favoring the Erie are (1) mileage is primarily main line with practically no branch or feeder mileage; (2) the main line of the road between New York and Chicago avoids the larger cities where congestion and heavy local freight usually (Please turn to page 48)

### Changes in Interest Charges — Prior to and Subsequent to Reorganization

|  | Dec. 31, 1937        | Dec. 31, 1941        | Dec. 31, 1942       |
|--|----------------------|----------------------|---------------------|
| Interest on fixed interest debt .....                    | \$ 12,187,394        | \$ 12,053,890        | \$ 5,897,267        |
| Rent for leased roads .....                              | 1,988,354            | 1,376,099            | 619,062             |
| Other charges .....                                      | 370,962              | 352,216              | 267,982             |
| <b>Total fixed charges .....</b>                         | <b>\$ 14,546,710</b> | <b>\$ 13,782,205</b> | <b>\$ 6,784,311</b> |
| Interest on contingent interest debt .....               | 4,900                | 65,810               | 2,269,033           |
| <b>Total fixed charges and contingent interest .....</b> | <b>\$ 14,551,610</b> | <b>\$ 13,848,015</b> | <b>\$ 9,053,344</b> |



# Re-appraisal of Companies In the News

BY THE MAGAZINE OF WALL STREET STAFF

## American Air Lines

**D**ESPITE lack of sufficient flying equipment to meet the swelling demand for air transportation, American Air Lines, largest domestic air transport system, managed to hold its own in 1942 with net profits reaching a new high of \$3,851,714 equal to \$6.33 per share against \$2,473,160 or \$3.93 per share in 1941. This increase was almost entirely due to a profit of \$1.18 millions from the sale of equipment to the Government but even without it, net showed a moderate gain. Total operating revenues were \$26.98 millions compared with \$26.29 millions in 1941. Of this, fully 80% came from passenger business; 12.2% was derived from carrying mail and 6.4% from carrying air express. Operating expenses declined from \$19.97 millions to \$19.65 millions, reflecting improved profit margins as the result of more intensive use of the remaining equipment.

|      | 1937   | 1938 | 1939 | 1940   | 1941   | 1942   | 1943   |
|------|--------|------|------|--------|--------|--------|--------|
| High | 32 3/4 | 22   | 47   | 75     | 58 1/2 | 58 1/2 | 64 1/2 |
| Low  | 7 1/8  | 8    | 26   | 41 3/4 | 40     | 25 1/4 | 52     |

On January 1st, only forty-three transport planes were left in commercial service. Federal income taxes doubled, amounting to \$2.75 millions, but no provision was made for EPT as no such liability was believed to have been incurred. This however may not be so in 1943, especially if the equipment situation should ease. In view of rising passenger revenues, air lines may actually earn themselves into a tax position which may seriously affect profits. Indeed, the anomaly may occur that an air line may have more net income if it earned less from non-mail business. Under the tax law, as applicable to the air transport industry, this is well within the realm of possibility but an offset may be found in the provision of the law permitting a carry-over for two years of unused EPT exemption credits.

Apart from the uncertain future tax liability, the more immediate outlook is further clouded by efforts

of the CAB to force a decrease of 10% in passenger fares. Since the air lines last summer advanced their rates about that much, this move would merely amount to a restoration of the rates then prevailing. The Civil Aeronautics Board incidentally contends that even under the proposed new rates, American Airlines could show profits before taxes of \$7,672,790 which would compare with a 1942 figure of \$5.86 millions. Whether such an improvement of earnings, or indeed maintenance of earnings around 1942 levels, is possible at all in view of the reduced flying schedules forced by lack of equipment, appears doubtful. For this reason, it would not be surprising if the fare reduction finally agreed upon should turn out much less than 10%. Regardless of earnings, the company's dividend policy will probably continue conservative in order to conserve cash for post-war adjustments and capital outlays. The latter will no doubt be very considerable in view of the spectacular post-war growth envisioned, especially in the passenger transport field. However, finances are in sound condition and current funds sufficient to provide for early expansion requirements without recourse to borrowing. Net working capital at the end of 1942 amounted to \$12.54 millions compared with \$8.32 millions the year before.

## Celotex Corporation

January quarter results confirmed expectations of a sizeable sales increase but taxes eliminated the resultant gain in operating income and net for the quarter ended Jan. 31 was slightly below last year's period, amounting to \$275,575 equal to \$0.38 per share against \$278,291 or \$0.39 per share last year. While net before taxes increased as much as 35%, taxes rose 56%. In the fiscal year ended 10/31/42, sales rose 17.7% to \$23.5 millions. Costs were well controlled but taxes soared 109% leaving net of \$1.12 millions equal to \$1.53 per share compared

with \$1.75 millions or \$2.51 per share in the 1941 fiscal year.

The company which is now heavily engaged supplying Government needs, is expected to benefit importantly from the expected post-war building boom. Residential building is the chief consuming source of its products and normally takes 65% of the entire output. Other industries are becoming increasingly bigger customers, notably for insulating board.

Post-war growth of earnings may, however, be handicapped by taxes and keen competition,

|      | 1937 | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 |
|------|------|------|------|------|------|------|------|
| High | 48¼  | 19½  | 19½  | 12½  | 10½  | 8½   | 14¾  |
| Low  | 19½  | 12½  | 7½   | 5    | 5½   | 6½   | 8¼   |

especially in the field of roofing materials. The company contemplates to extend its holdings of South Coast Corporation stock by early purchase of additional 93,100 shares (about 27%); it already acquired in the open market 18,400 shares or 8.3%. South Coast Corporation is the pivotal source of supply for the company's basic low-cost raw material, bagasse, a fibrous material obtained from sugar cane. The financial position of Celotex strengthened considerably in recent years but until 1941, dividends were paid only occasionally. In 1942, \$0.75 was disbursed to stockholders, against \$1.12½ in 1941. Working capital rose to \$4.02 millions from \$3.50 millions in the preceding year. Earned surplus at the end of October 1942 stood at \$4.12 millions.

### Climax Molybdenum

Long a speculative favorite, this stock was pushed into new prominence by the war as widespread and successful substitution of molybdenum for increasingly scarce nickel and tungsten in many heavy-duty alloys promises lasting benefit to this leading producer, who accounts for over 70% of the world's molybdenum output. Spurred by heavy war demand the company has been, and still is, expanding its facilities; nevertheless depleted inventories may restrict 1943 sales gains and a moderate decline in earnings is likely. The 1942 sales figures were not revealed but profit from sales rose 89% to \$24.73 millions and operating income was \$23.91 millions against \$12.37 millions in 1941. Taxes, including EPT, soared no less than 242% to \$9.72 millions. No EPT liability was incurred in 1941 but this item in 1942 came to \$4.68 millions. Remaining net profits amounted to \$13.39 millions equal to \$5.11 per share (exclusive post-war refund of \$519,800) compared with \$8.95 millions or \$3.55 per share in 1941. Including post-war refund, per share earnings amount to \$5.31.

|      | 1937 | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 |
|------|------|------|------|------|------|------|------|
| High | 41   | 60¼  | 60½  | 41½  | 44½  | 44   | 48½  |
| Low  | 24½  | 32½  | 34½  | 25½  | 26½  | 32¼  | 38½  |

For the duration, operations will no doubt continue at capacity which would mean an annual out-

put of better than 36 million pounds of molybdenum ore. In 1941, annual production came to 27 million pounds. Even at capacity, ore reserves are believed sufficient for fifty years. Post-war prospects are largely conditioned on the ability of molybdenum to maintain its newly won position in the alloy field. Molybdenum alloys have been widely accepted, including abroad, and should retain at least part of the field. However, once demand for alloy metals has reverted to peace-time proportions, molybdenum will have to contend with strong competition, the effect of which is difficult to foresee at this time since no exact data on production costs are available. But generally speaking, the successful war-time use of molybdenum alloys augurs well for the post-war status of this metal. In 1940, about 45% of the output were exported in the form of concentrates.

Domestically, molybdenum is principally used in alloys for the automobile industry, but since the war, markets for molybdenum alloys widened considerably. Earnings normally vary with sales volume as prices are generally stable and costs well controlled. Finances of the company are in excellent shape and sizeable capital expenditures, past and current, are met from current funds. Working capital amounts to \$15.43 millions against \$11.11 last year, including cash of \$8.11 millions against \$6.16 in 1941. Total assets were \$86.07 millions vs. \$78.88 millions last year, and surplus stood at \$20.92 millions against \$15.77 millions at the end of 1941. Earnings in the past have been exceptional and dividends generous, amounting to \$3.20 per share since 1939. This rate will probably be continued in 1943 even though earnings may fall below 1942.

### Thompson Products Corp.

A leading peace-time supplier of the automobile industry, this important manufacturer of valves, pistons, connecting rods and other products for automobiles, trucks and aircraft is now almost 100% engaged in war work. Significant is the company's increasing output of aircraft parts which, in a Government-owned plant operated by a subsidiary, is running at a monthly rate of \$3.5 millions and a further step-up of production is indicated as soon as additional facilities are completed.

|      | 1937 | 1938 | 1939 | 1940 | 1941 | 1942 | 1943 |
|------|------|------|------|------|------|------|------|
| High | 28½  | 28½  | 33¼  | 38¼  | 34   | 27½  | 32½  |
| Low  | 10   | 8½   | 17   | 25¼  | 24¼  | 17½  | 26¼  |

Hence 1943 output should exceed 1942 volume considerably and while renegotiation will narrow profit margins, results on the whole should be quite satisfactory. The 1942 net sales rose 43% to \$60.92 millions. Costs were exceptionally well controlled, and final net profit amounted to \$2.05 millions or \$6.49 per share compared with \$1.72 millions equal to \$5.36 per share. This includes a post-war refund of \$478,000. Excluding this refund, per share earnings would be \$4.87 against \$5.36 in 1941. Operating income was \$11.57 millions against \$6.09 millions the year before. 1942 taxes rose 190% to \$7.80 millions.

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The company's fast-growing aviation parts division is regarded a promising factor in the post-war outlook. In 1941, aviation parts accounted for 40% of gross sales, original automobile parts for 32%, replacement parts for 28%. With a strong position in both the automotive and aviation field, the company should participate fully in the excellent post-war prospects of these important industries. In the past, it enjoyed a substantial and fairly stable replacement business in the automotive field and should fare better than the average parts maker. This is important as earnings are primarily conditioned by volume. While earnings have been large, dividends were rather conservative to build up working capital. Last year \$1.50 was disbursed against \$2.50 in 1941. In July last year, the company arranged a bank credit of \$18 millions to retire RFC loans and provide additional working capital. The latter at the end of 1942 amounted to \$9.63 millions compared with \$8.51 in 1941. Selling currently below the equity per common of \$36.06, the price of this stock appears not entirely to reflect future prospects which are enhanced by virtual absence of reconversion problems.

### White Motors Co.

A poor earner and dividend payer in the past, the war proved quite a fillip for this old-established truck manufacturer but the post-war outlook does not appear so promising. The company is working at capacity making special vehicles for the Army including scout cars and half-tracks which are likely to make up the bulk of war-time sales as the manufacture of trucks for civilian use has been largely suspended. The company has a large backlog of war orders and while their re-scheduling is possible, resulting in some reduction of the aggregate, operations will not be affected for quite some time. All together, 1943 results should compare favorably with last year's when net of \$3.19 millions or \$5.10 per share was realized compared with \$2.75 millions equal to \$4.41 per share in 1941. This includes post-war refund of \$620,000. Without it, per share earnings amount to \$4.11 against \$4.41 in 1941. These results however are subject to renegotiation and no indication has been given by the management as to its effect, if any.

|      | 1937                           | 1938                           | 1939                           | 1940                           | 1941                           | 1942                           | 1943                           |
|------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| High | 33 <sup>3</sup> / <sub>8</sub> | 15 <sup>1</sup> / <sub>4</sub> | 15 <sup>3</sup> / <sub>4</sub> | 17 <sup>1</sup> / <sub>8</sub> | 17 <sup>5</sup> / <sub>8</sub> | 15 <sup>5</sup> / <sub>8</sub> | 21 <sup>3</sup> / <sub>4</sub> |
| Low  | 6                              | 6 <sup>1</sup> / <sub>8</sub>  | 7                              | 7 <sup>1</sup> / <sub>2</sub>  | 10 <sup>1</sup> / <sub>2</sub> | 12                             | 13 <sup>1</sup> / <sub>4</sub> |

Finances are satisfactory. The company is maintaining a relatively large working capital, amounting to \$20.48 millions against \$17.15 in 1941. A large part, i.e. \$18.99 millions, consists of receivables whereof \$14.17 millions are due from the Government. Cash amounts to \$5.90 millions against \$2.02 millions last year. The 1942 sales increased 81% to \$132.15 millions. Operating income was \$23.23 millions against \$7.55 millions in 1941 and EPT consequently mounted from \$3.00 to \$16.08 millions.

The stock is currently selling at less than half its equity which at the end of 1942 was \$45.74 per share. In view of the post-war outlook, this is not surprising. While the concern enjoys a good trade reputation, there is nothing at present to indicate its ability to operate consistently at a profit in normal times. The post-war demand for truck replacements is estimated at some 400,000 units but prospects of benefiting therefrom are no doubt compromised by a prospective large supply of second-hand trucks released by the Army after the war. To broaden its markets, the company some time ago introduced a new light delivery truck but in this field too, severe competition is likely to be felt from second-hand vehicles, not to mention the leading automobile manufacturers already well entrenched in the light truck market. Replacement demand for truck parts which normally represents about one-fifth of sales, may prove a compensating though not too important factor in the post-war picture. Over the nearer term, however, prospects are good for the continuance of the \$1.25 dividend.

### Borg-Warner Co.

The 1942 results of this leading automotive parts manufacturer were fairly good with net profits amounting to \$7.21 millions, equal to \$3.09 per share compared with \$7.47 millions or \$3.20 per share the year before. This includes post-war refund of \$1.55 millions; if excluded, net per common would be \$2.42. While exact sales figures were not disclosed, they exceeded the preceding year's figure of \$119.38 by a considerable margin. Operating income increased 12.5% to \$30.17 millions but this was more than offset by an advance in taxes to \$18.20 millions from \$15.46 in 1941. The company, fully engaged in war work, has a huge backlog of unfilled orders which as of March 15th amounted to \$223 millions. Hence 1943 sales should rise materially above 1942 levels provided no difficulties are encountered in securing raw materials. Margins presumably will narrow but volume should more than compensate for it. Continuance of last year's dividend rate of \$1.60 is confidently expected.

|      | 1937                           | 1938                           | 1939                           | 1940                           | 1941                           | 1942                           | 1943                           |
|------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| High | 50 <sup>5</sup> / <sub>8</sub> | 36 <sup>5</sup> / <sub>8</sub> | 32                             | 25 <sup>5</sup> / <sub>8</sub> | 21 <sup>1</sup> / <sub>2</sub> | 28 <sup>3</sup> / <sub>4</sub> | 33 <sup>5</sup> / <sub>8</sub> |
| Low  | 22 <sup>3</sup> / <sub>4</sub> | 16 <sup>1</sup> / <sub>2</sub> | 18 <sup>3</sup> / <sub>4</sub> | 12 <sup>7</sup> / <sub>8</sub> | 16                             | 19 <sup>3</sup> / <sub>4</sub> | 26 <sup>3</sup> / <sub>8</sub> |

As one of the best diversified manufacturers of automotive parts, Borg-Warner should be in a position to profit fully from the expected post-war revival of the automobile industry. Besides, there are practically no reconversion problems. The company normally supplies transmissions, overdrives, clutches, radiators, universal joints, carburetors and other vital automobile parts to virtually the entire automobile industry. Parts volume in 1941 accounted for 51% of aggregate sales; 40% thereof represented original equipment. Through its Norge division, Borg-Warner (Please turn to page 50)

# A CENTURY OF PRICES

## Part II

### The Business Cycle, National Income and Real Wages

BY H. M. TREMAINE

IN the preceding issue we discussed the long term back record of commodity prices, noted that during every major war there was a great price inflation followed in due course by protracted decline, and ventured some observations on probable price trends after this war.

Importantly related to the question of prices is the cyclical pattern of business activity—and intimately related both to business activity and prices are the money incomes and living standards of our people. The chart below pictures slightly more than 100 years of exceedingly interesting and chequered economic history, covering industrial production, per capita national income and real wages.

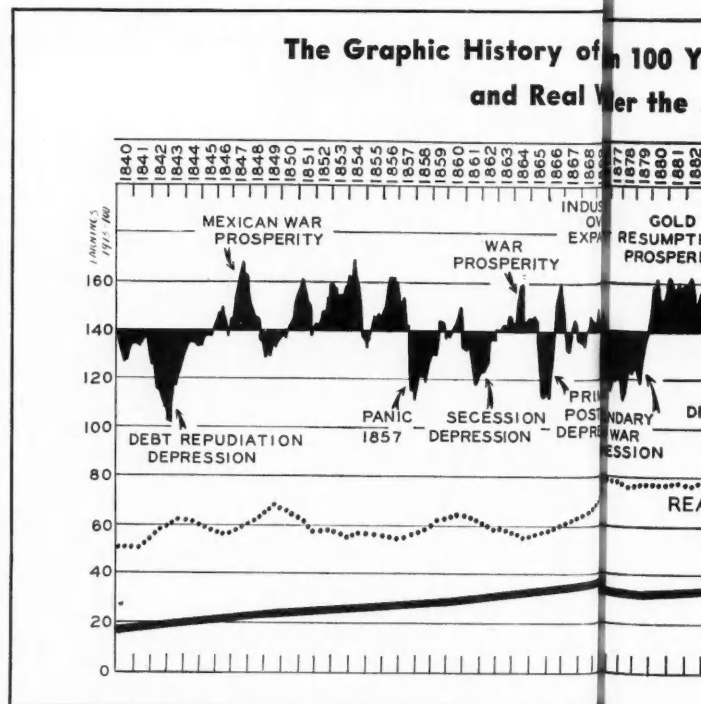
It is impossible to construct a fully satisfactory long term chart of economic activity. The familiar business indexes now available—such as that of the Federal Reserve Board—are based on sample data, go back only a relatively few years and within their short life have been frequently “adjusted” or revised. The most inclusive measure of economic activity would simply be the national income. If adjusted for price changes, that shows the real net value of all goods and services produced.

The national income itself is real and tangible—but just how *much* it is rests upon some exceedingly complicated statistics and estimates. In modern times the careful estimates of the Department of Commerce must be assumed to be adequately accurate, and anyway they are the best that we have to go on. But the farther back you go over the past century, the less assurance can you have—for in the early days economic and financial statistics were far less complete and reliable than they are today.

The long term chart of industrial production presented here is that used by the Cleveland Trust Company. The base (100) is “computed normal,” which takes into account the long term growth of population and also the long term growth in the productivity of American industry. Thus the chart is well-adapted to show the swings of the business cycle but not the secular growth of national income and wealth. Perhaps the most striking fact brought out is the number and frequency of depressions in “the good old days.” We were “prosperous” only

during about 60 per cent of the century and more covered by the graph. And if we based our expectations for the future solely on the basis of past history, it would be axiomatic to forecast that in due course—perhaps in five years or eight years (nobody can know) deep depression will replace the present very high activity and that to come for at least several years after the war. On this I will have more to say hereafter.

One thing, in my opinion, is all too obviously demonstrated by the back record. It is this: In a free economic system—with little or no “Government intervention” and under the dominance of private initiative actuated by “natural economic law”—the distortions and dislocations brought about by war (especially modern “total war”)—would inevitably be followed by acute and



prolonged depression. Capitalism can not be expected to "work" satisfactorily during and for a goodly time after these upheavals of war. Therefore a "mixed economy"—partly capitalist and partly dependent upon State planning and action—must be with us for some time to come and probably indefinitely.

It will be noted that the depression which began after 1929 was exceptionally severe and protracted and that not until the influence of large-scale war spending made itself felt did industrial activity rise significantly above "computed normal."

For the severity of that great depression, orthodox economists blame the First World War and the over-speculation of the late 1920's; while for the duration of it they put much blame upon New Deal policies. The opposite school of economists accepts the first two points in this reasoning but adds another: They think it is *inherent in the modern capitalist system* that depressions should tend to become more severe than in the past, unless there is offsetting Government intervention.

### The Biggest Depression

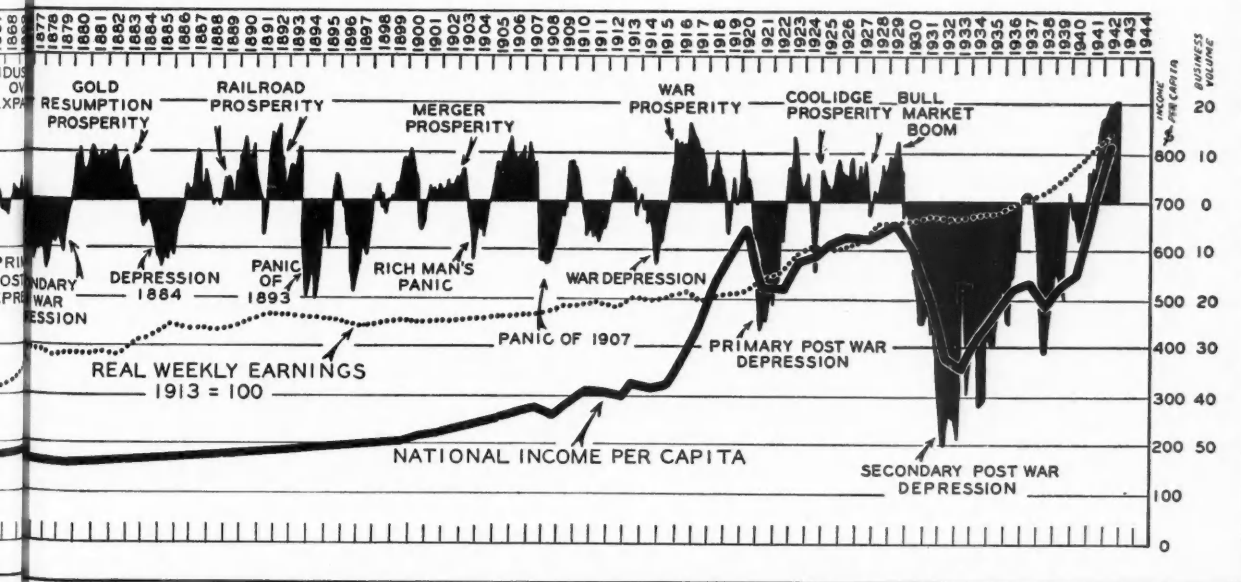
The argument behind the latter contention relates partly to the distribution of national income, "over-saving," alleged inadequate secular growth of productive private investment, and the complexity and sensitivity of economic relationships in our present highly industrialized society. Following this line of reasoning, the basic New Deal economic policy—until the war made it obsolete in theory, though not yet in practice, for the duration—was the fostering of increased consumer purchasing power among the masses and to discourage by a variety of means

(especially taxes) the accumulation of "stagnant" savings.

For what it is worth, an increasing number of economists—and of "liberal" business men—have come to accept this economic philosophy, at least in substantial part. The real basis of debate now and in future is not Government intervention versus no Government intervention; but the degree, intelligence and effectiveness of such intervention. Even if one concedes that private enterprise can not be the whole story in a present day economic system—without or without war conditions—it can still be validly charged that the maximum potential of capitalist activity could not be attained under New Deal policies as administered with undisguised distrust of, and hostility to, private business.

Certainly in one respect there is an inherent tendency for highly productive capitalism to run into deeper depressions than in earlier times, without balancing or supplementary Government intervention. In the most primitive societies there is, of course, no "economic cycle." There may be flood or drought or other natural disaster, but no business cycle. The reason is that the people are continuously occupied in obtaining the bare necessities of life for which demand is not postponable. At the opposite extreme is our modern "luxury" economy, in which during time of peace a major portion of total production centers on goods and services that people do not have to have for subsistence at any given time or on any regular schedule, and for which the market demand is postponable for long intervals of time when something—whatever it may be—upsets the economic apple-cart, people get scared or cautious, and the "deflation spiral" sets in. Perhaps the simplest way to put it is (*Please turn to page 47*)

of 100 Years of Business Cycles and the Long Term Rise in National Income  
I Ver the American Private Enterprise System.



# Promising Leverage Stocks

**Five new recommendations, and another look at several previous ones, among companies with small stock capitalizations.**

BY GEORGE W. MATHIS

**C**APITAL leverage, a condition sometimes making for wide changes in per share earnings and market values, is a factor often imparting exceptional appeal to companies with small common stock capitalization and little or no senior debt. The explanation is simple as a relatively small increase in income is bound to expand per share earnings at a much greater ratio than it would if senior obligations existed. Small fixed overhead has the same effect. The resultant appreciation of market values is often very considerable. The process of course works both ways but especially today such appreciation prospects are inherent in many stocks. This applies particularly to many small companies, normally only marginal earners, which have become heavy beneficiaries of war contracts and are able to report steadily rising earnings. Also in this category fall concerns now suffering from war-time restrictions but possessing excellent post-war recovery prospects, and finally companies in a position to extend profitably into the post-war era advantages or valuable experience gained from war business or research.

We have selected a list of 28 equities, all capitalized very conservatively, which we believe hold promise of benefiting from just such circumstances. Some few of them which we consider particularly attractive are discussed below in more detail. The accompanying table has been compiled with a view to giving our readers pertinent data on these selections.

## **Bigelow Sanford Carpet Co.**

The stock of this company, largest domestic maker of rugs and carpets, should benefit substantially from post-war replacement demand. Due to restrictions on the use of wool, normal lines were practically discontinued and the company is now actively engaged in war work, however, current margins are below customary levels. For aforementioned reasons, the company in 1942 suffered a sharp decline in earnings which dropped to \$3.52 per share from \$6.01 in 1941. Further low earnings are in the offing during the first semester of 1943 but subsequently the firm should do better and the \$2 annual dividend is held secure. Yielding about 6% at current prices, the stock does not appear high, considering the excellent financial position of the

company. Equity per common amounts to \$75.97 per share and equity in working capital is about \$44 per share. Cash alone almost equals current liabilities of \$1.98 millions.

## **Bower Roller Bearing Co.**

This stock has been edging into further high ground and at over 33 is now close to its 1937 high. A leading manufacturer of all types of bearings, the company at present is heavily engaged in war work, reporting satisfactory margins and earnings despite heavy taxes. The 1942 report, just released, shows net per common of \$3.54 against \$3.76 in 1941. Dividends of \$2.50 were paid last year, yielding 8%. Earnings in the past were large and dividends generous, and post-war prospects promise maintenance of this enviable record. The company's best peace time customer is the automotive industry although recent growth of industrial markets tends to reduce this dependence on the automobile industry. Normally, earnings are conditioned on volume but close cost control enables the company to show profits even in low operating periods. Excellent post-war business appears assured, not only from the automotive industry but also coincident with reconversion of industry in general to a peace-time basis.

## **Chicago Flexible Shaft Co.**

This important maker of electric household appliances, well known under trade names such as Sunbeam, Ironmaster, Mixmaster, Shavemaster, etc., should fully participate in the post-war revival of the appliance business, now practically discontinued as a war measure. New as well as replacement demand should be considerable. The company now makes tools and fixtures for war work and additional government orders are expected to swell their already sizeable backlog. Plant facilities are well adapted to current war work and no particular conversion problem exists. At 71, the stock which is listed on the Chicago Stock Exchange, appears reasonably priced, considering nearby prospects and the promising long-term outlook. 1942 net was \$6.34 per share compared with \$8.41 in 1941, reflecting narrower margins from war work. The \$4

dividend should be continued in 1943. The company has an excellent financial position with cash alone exceeding current liabilities.

### Royal Typewriter Co.

Prospective large post-war demand for typewriters the manufacture of which has been practically discontinued for the duration, a measure which already is being felt severely, lends particular appeal to this equity which is listed on the N. Y. Curb Exchange. The company now has a large backlog of war orders and despite narrower margins is doing well. Net for the year ended 7/31/42 was \$8.23 compared with \$9.19 in the preceding period. Losses in connection with the company's five European subsidiaries have been completely written off; they were, incidentally, a relatively minor factor in the company's business, over 80% of their sales originating in the U. S. A. The widening demand for portable typewriters should further bolster post-war business and possibilities for profitable export business should exist. Earnings and dividends in the past were steadily on the up-trend, with \$5.50 disbursed on the common in 1941, and \$4.00 in 1942 when conversion to war work took place. The financial position is strong with cash of \$2.22 millions exceeding current liabilities of \$1.63 millions.

### Ruberoid Co.

The expected post-war building boom should benefit materially this maker of an extensive line of building and roofing products from asphalt and asbestos, used extensively not only for repair and improvement work but for new construction as well. The company in recent years reported a steady sales increase but with government construction now past its peak, near-term earnings are expected to fall below 1942 levels when \$2.48 was realized per common against \$3.93 in 1941. Material shortages and ceiling prices are adverse near-term factors but over the longer term, the outlook is excellent, lending the stock particular attraction for the long pull. Finances are strong with cash considerably exceeding current liabilities.

### Bohn Aluminum Co.

This stock, discussed at some length in a previous issue, reached recently a new high for the current movement of 54, thus exceeding the 1937 high of

48 1/8. The 1942 income report just come to hand was fully up to expectations with net amounting to \$6.78 per share against \$5.48 last year. Sales nearly doubled but costs more than trebled while taxes amounted to \$13.30 per share compared with only \$3.49 in 1941. A special reserve for contingencies was set up, amounting to two million dollars. Future earnings progress is likely to be handicapped by taxes although some further improvement is anticipated. While there is nothing to detract from the company's excellent long-term prospects, the recent advance has been rather fast and it might be advisable to postpone purchases for the time being.

### Fansteel Metallurgical

This company likewise has been discussed in detail before. The price now exceeds the 1937 high of 17 1/2 reflecting continued lively interest in the company's prospects. The stock of course is strictly speculative and for long pull commitment only but the company's pioneer work in powder metallurgy should lead to substantial rewards after the war

### Representative Example of Corporations with Small Common Stock Issues

| Name of Company            | Capitalization<br>(000 omitted) |       |       | 1942 Net<br>per Sh. | 1942 Div.<br>per Sh. | 1937    |        | 1942-1943 |        |
|----------------------------|---------------------------------|-------|-------|---------------------|----------------------|---------|--------|-----------|--------|
|                            | Common                          | Pfd.  | Debt. |                     |                      | High    | Low    | High      | Low    |
| Acme Steel .....           | 328                             | ..... | ..... | 5.26                | 3.50                 | 85      | 43 3/4 | 50 1/8    | 39     |
| American Chiclé .....      | 432                             | ..... | ..... | 6.57                | 5.00                 | 112     | 90     | 110       | 69     |
| Apex Electric .....        | 90                              | 7     | ..... | 6.11 (6)            | 1.00                 | 42 3/8  | 8 1/2  | 12        | 7 1/4  |
| Atlas Plywood .....        | 141                             | 62    | ..... | 4.16 (1)            | 1.80                 | 29 1/2  | 9      | 19 1/8    | 12 3/4 |
| Barber Asphalt .....       | 390                             | ..... | ..... | d0.50 (5)           | None                 | 43 3/8  | 10 1/8 | 18 1/4    | 6 1/8  |
| Bigelow Sanford .....      | 313                             | 26    | ..... | 3.52                | 2.00                 | 69 3/4  | 22 1/4 | 35        | 18 3/4 |
| Bohn Aluminum .....        | 352                             | ..... | 1200  | 6.78                | 3.00                 | 48 1/8  | 21     | 53 3/4    | 25     |
| Bower Roller Bearing.....  | 300                             | ..... | ..... | E3.00               | 2.50                 | 34      | 15 3/4 | 34        | 25     |
| Campbell Wyant .....       | 345                             | ..... | ..... | E2.40               | 1.25                 | 37 3/8  | 10     | 19 1/8    | 11 1/8 |
| Chicago Flexible Shaft...  | 180                             | ..... | ..... | 6.34                | 4.00                 | 76 1/4  | 32     | 72        | 47     |
| Clark Equipment .....      | 237                             | 17    | 1900  | 4.12                | 3.00                 | 48      | 17 1/4 | 39 3/8    | 28     |
| Compo Shoe Machinery....   | 149                             | 10    | ..... | 1.30                | 0.80                 | 17 1/2  | 8 1/2  | 11        | 7      |
| Devco & Reynolds "A" ..... | 151                             | 28    | 58    | 5.04 (2)            | 1.25                 | 76 1/8  | 29 1/2 | 27        | 14     |
| Doehler Die Casting .....  | 297                             | ..... | ..... | 2.71                | 2.00                 | 46 1/4  | 16 1/2 | 26 1/2    | 16 1/8 |
| Driver Harris .....        | 89                              | ..... | ..... | 3.57 (5)            | 2.40                 | 42 1/2  | 14     | 27 1/2    | 20 1/4 |
| Fansteel Metallurgical ... | 206                             | 7     | 70    | 1.87                | 0.25                 | 17 1/2  | 4 1/2  | 17 1/4    | 5 1/8  |
| General Fireproofing ..... | 321                             | 7     | ..... | 1.06                | 1.25                 | 25 3/8  | 10 1/2 | 16 1/2    | 12 1/2 |
| International Silver ..... | 91                              | 50    | ..... | 5.14                | 4.00                 | 52      | 16     | 44 3/4    | 26     |
| Lima Locomotive .....      | 211                             | ..... | ..... | 7.09                | 2.00                 | 83 1/2  | 18 1/4 | 36 1/2    | 22 1/8 |
| Master Electric .....      | 250                             | ..... | ..... | 3.86                | 1.80                 | 25 3/8  | 13 1/4 | 27 1/2    | 19     |
| Pratt & Lambert .....      | 194                             | ..... | ..... | 2.21                | 1.80                 | 41      | 15     | 26        | 16 1/4 |
| Royal Typewriter .....     | 218                             | 37    | ..... | 8.23 (3)            | 4.00                 | 110 3/4 | 35 1/2 | 59 1/2    | 36 3/8 |
| Ruberoid Co. ....          | 398                             | ..... | ..... | 2.48                | 1.15                 | 38      | 17 1/4 | 25        | 16     |
| Snider Packing .....       | 210                             | ..... | ..... | 2.14 (4)            | 1.50                 | 29 3/4  | 9 3/4  | 28 1/4    | 13 1/4 |
| Starrett (L. S.) Co. ....  | 146                             | ..... | ..... | 6.98 (1)            | 2.25                 | 48      | 19 1/2 | 34 3/4    | 22 3/4 |
| Sullivan Machinery .....   | 187                             | ..... | ..... | 4.31                | 1.00                 | 28      | 5 3/4  | 19 3/8    | 9 1/2  |
| Transue & Williams .....   | 135                             | ..... | ..... | 2.49                | 2.00                 | 27 3/8  | 5 1/8  | 16 3/4    | 8 3/4  |
| Vulcan Detinning .....     | 32                              | 13    | ..... | 8.90 (5)            | 7.00                 | 98      | 50     | 107       | 70     |

d—Deficit. E—Estimated. (1) Year ended 6/30/42. (2) Applicable to all stock. (3) Year ended 7/31/42. (4) Year ended 3/31/42. (5) Nine mos. ended 9/30/42. (6) Earned in 1941; 1942 net should be well maintained.

when this new science should come into its own. The tantalum carbide cutting tools developed by their subsidiary, the Vascoloy-Ramet Co., also offer a promising field for expansion and should contribute substantially to future earnings. As to the company's main business, the processing and supplying of rare metals such as tungsten, tantalum and molybdenum, there is every reason to expect that the electronics industry will continue to be a large and important market for Fansteel products in post-war years. (Please turn to page 56)

# FOR PROFIT AND INCOME

## "Late Movers"

A recent feature of the market was increased demand for stocks which had been persistently backward during previous phases of the bull market, notably steels and coppers. According to one of the most widely accepted speculative traditions, these are "late movers" and belated strength in them may suggest that the general upward trend is living on borrowed time. However, more than one ancient tradition has gone by the board in this bull market. Demand for more speculative stocks reflects increased confidence but neither prices nor confidence appears to be at an extreme level. The "heavy" steels particularly are still in a depression market range.

## Great Northern Preferred

The previous rapid rise in the shares of borderline railroads, such as New York Central, Southern Pacific and Southern Railway, naturally directs attention to Great Northern preferred. Great Northern would never have been regarded as a "borderline" road but for the maturity in 1946 of \$49,711,200 of general mortgage bonds. This issue, it happens, is convertible into preferred stock (the company's only equity) at \$40 a share against a price of  $27\frac{3}{4}$  as this is written. There is no incentive to convert now, but a \$3.00 dividend on the stock against \$2.00 at present might change the picture; and Great Northern might be able to pay as much as \$4.00 before 1946. We

can't help thinking that a share of Great Northern preferred at  $27\frac{3}{4}$  (compared with a February low of  $23\frac{1}{4}$ ) may be lower than a share of Southern Railway common at  $26\frac{1}{2}$  (compared with a February low of 17). Great Northern Railway earned \$11.63 a share on the preferred stock in 1942. In the four years ended with 1942 it earned a total of

In this Republic Aviation "ice box" a research tester makes observations at temperatures as low as 92 degrees below zero to insure that the Republic P-47 Thunderbolt fighter can function properly in unbelievably cold, rarefied air many miles above the earth. This plane is reputed to be the world's best in high-altitude fighting. Although now being turned out in substantial volume, no reports of battle-front action have been released. Republic Aviation showed earnings of \$1.02 per share for 1942, against 69 cents the previous year; and amount set aside for special reserves slightly exceeded profit per share. Volume and net should be higher this year.



\$25.91 a share. It is a good guess that with 1943 it will have more than earned the current price of the stock.

## Southern Railway

Reports are being circulated that the directors of Southern Railway may be much more liberal with the dividend on the common stock this year. Some say a payment of \$4 or \$5 a share is possible. Southern earned \$23.41 a share on the common last year and paid \$2 a share out from 1942 earnings on April 1st. In 1941 and in 1942 it earned \$42.06 a share. In the first two months of this year net was \$2.23 a share against \$1.19 a share in January and February of 1942. If the management is moved to be so generous it probably will be in anticipation of being able to use the common or preferred stock as an issue into which some future refunding bond issue may be convertible. The big financial objective of the Southern management is thought to be a refunding of the development and general

bonds, 6½s. these t

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bonds, especially the 6s and the 6½s. Interest requirements on these two issues are irksome.

### Looking at Some Rail Figures

In the midst of all the enthusiasm about some of these receivership roads it should not be overlooked that, in spite of good net figures, some of them have not been doing as well as average. For instance, taking 1929 gross at 100, the 1942 gross of Rock Island was 92.8, of Chicago & North Western 89.4 and of St. Paul 105.0. On the other hand Western Pacific's corresponding figure was 218, Seaboard Air Line's 189.7 and Missouri Pacific's 127.5. Among the solvent roads especially good showings have been made by Nickel Plate at 189.7, Union Pacific 162.3, Southern Pacific 152, Atlantic Coast Line 159.3 and Southern Railway 142.8. The average for all class I roads was 118.8.

### The Sugar Shares

Sugar shares lately have been held back by (1) disappointing 1943 crop quotas and crop prices in Cuba, (2) the enactment of a tax bill in Cuba which will cost the Cuban producers a good deal, and (3) by the poor shipping situation which prevents normal shipments of Cuban and West Indies sugar to either the American or the European markets. It is the conviction of the trade, however, that 1944 will be a much better year. It is felt that the shipping situation will be better, that the demand for food in both Europe and the United States will be more pressing, and that the Philippines and Java will be out of production for a long time due to damage to mills as well as neglect of cane fields.

Some think that WEST INDIES SUGAR, which is about two-thirds Santo Domingo and one-third Oriente Province in Cuba, is an especially desirable sugar equity. Costs are low, management is rated unusually good, relations with the Dominican government are favorable and sugar may flow to Britain (which is the normal customer of the Dominicans) before it flows to United States. The stock currently sells around

### The American People Are Saving Money

What is going on in the securities markets? Why should stocks have been strong until late last week when the Government is engaging in the greatest bond selling campaign in the history of the world? Because the American people are saving money faster than ever before; and because no new securities, except Government bonds or refunding issues, are being created into which to place the resulting surplus cash. The following figures were compiled by a prominent statistical organization from Department of Commerce statistics:

#### DISPOSITION OF INDIVIDUAL INCOME PAYMENTS

(Billions of Dollars)

|  | 1939   | 1940   | 1941   | 1st    | 2nd     | 3rd     | 4th     |
|--|--------|--------|--------|--------|---------|---------|---------|
| Disposable Income of Individuals after Taxes ..... | \$68.3 | \$73.9 | \$88.5 | \$99.1 | \$104.8 | \$111.1 | \$120.3 |
| Less: Consumer Expenditures ..                     | 62.0   | 66.2   | 75.8   | 80.3   | 79.5    | 82.7    | 85.1    |

Net Savings of Individuals ..... \$ 6.3 \$ 7.7 \$12.7 \$18.8 \$ 25.3 \$ 28.4 \$ 35.2

Commenting on the same thing, the SEC in mid-February reported that in the final three months of 1942, individuals added \$1,500,000,000 to the cash in their pockets and \$3,100,000,000 to credit balances in their checking accounts.

14. It earned \$4.12 a share last year. Aside from 12,214 shares of \$2.50 preferred there is nothing ahead of the 951,208 shares of common stock which recently paid an initial dividend of 50 cents a share. Last year's production was 1,739,418 bags of 325 pounds each, which shows that it is no mean enterprise. This year's production and earnings, of course, will be lower.

### Utilities to the Fore

Some of the utilities have had notable advances, and there is a decidedly better feeling toward the industry—not always shared completely by utility executives themselves. This better feeling no doubt is closely connected with the improvement in the political environment. Most people think the "death sentence" will be changed in some manner. In the meantime, utility earnings are holding up well in spite of the tax problem.

Compromising with extreme safety such as might be found in issues like COMMONWEALTH EDISON and BOSTON EDISON, and without going down into the more speculative holding company issues, perhaps COMMONWEALTH & SOUTHERN PREFERRED, NORTH AMERICAN COMPANY and ELECTRIC BOND & SHARE preferred are among the more desirable issues. Among the lower-priced utility holding company shares, ENGINEERS PUBLIC SERVICE and AMERICAN WATER WORKS & ELECTRIC would appear to offer better than average values.

### Comment in Brief

A diversified group of highest grade stocks in each industry still affords a yield of about 4¾% in spite of the recent improvement in blue chips. . . . Crosley Corporation stock has advanced recently on reports that the company ought to be able to earn \$3.25 to \$3.50 a share for the duration; the company is said to be doing an excellent war job. . . . Among more painstaking analysts, the oil equipment supply issues are widely favored with PARKERSBURG RIG & REEL, BYRON JACKSON and REED ROLLER BIT preferred to NATIONAL SUPPLY which is regarded as much more speculative although possessing some leverage. . . . A partial list of stocks recently selling near or below net working capital per share follows: Pepperell Manufacturing Pacific Mills, Hudson Motor Car, American Laundry Machinery, Munsingwear, Spiegel, U. S. Hoffman Machinery, White Motors, Mack Trucks, American Stores, New Idea, Oliver Farm Equipment, J. I. Case, Minneapolis-Moline preferred, American Woolen preferred, Consolidated Cigar, General Cigar, Bigelow-Sanford, Mohawk Carpet Mills, Bayuk, American Type Founders, National Enamelling, Intertype, International Silver and Manhattan Shirt. . . . RADIO-KEITH-ORPHEUM, which long has had production difficulties, is said to have made rapid progress in the solution of its difficulties; the company is understood to be back in the black.

# Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET will answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to three listed securities.
3. No inquiry will be answered which does not enclose stamped, self-addressed envelope.
4. If not now a paid subscriber use coupon elsewhere in this issue and send check at same time you transmit your inquiry.

Special rates upon request for those requiring additional service.

## American Sugar Preferred

*Kindly advise me regarding the purchase of American Sugar preferred 7%. Since it is quoted low, is there any reason of doubt as to payments?*

*Would you recommend some other preferred below \$100.—J. H., South Orange, N. J.*

American Sugar Refining Company earned \$8.41 on its \$7.00 preferred stock in 1942 as compared with \$8.71 in 1941. The company's consolidated balance sheet as of December 31, 1942, showed net current assets of \$39,484,657 as compared with \$35,706,654 on December 31, 1941. This is a very good financial condition.

For the duration, stability of sugar prices at relatively high levels would appear to indicate that the company will be able to continue to more than cover its preferred dividend requirements. The preferred stock at 100 is 22¼ points above the low price of 1942. The company's strong financial position permitted it to pay its \$7.00 dividend in lean years such as in 1938 when it only earned 90¢ per share on the preferred stock. While it cannot be classified as a high grade preferred stock, the company should continue to do well for the duration.

A few preferred stocks selling below 100 on which the dividend

requirements appear well covered are: Dixie Vortex \$2.50 preferred stock selling at 38⅞, Columbia Pictures \$2.75 preferred stock at 35, Crown Cork and Seal \$2.25 preferred at 42 and Hat Corporation \$6.50 preferred at 96.

## Mesta Machine

*I never see much about Mesta Machine any more but I once owned 100 shares of it and it paid good dividends all the time I had it. Is it as good as it was?—J. H. B., Stauntan, Va.*

Mesta Machine Company for the year ended December 31, 1942, showed earnings of \$3.63 after excess profits tax credit, (excess tax credit amounted to 49¢) compared with \$3.61 per share in the preceding year. During recent years, producing facilities have been enlarged to meet increased requirements of ordinance manufacturers and to care for direct orders for special military equipment. Notwithstanding pursuit of a fairly liberal dividend policy, the financial position of Mesta Machine Company is satisfactory. A large volume of unfilled orders is on hand and a continuing inflow of business is reasonably well assured. In our opinion, this stock is above average and worthwhile for higher prices.

## St. Regis Paper

*I am interested in St. Regis Paper common as a speculative venture. In April the Board of this corporation will either vote to pay at least some of the preferred arrearage or decide to pass them so as to strengthen their financial structure.*

*Whichever way should be decided upon, I would like to get the low down on this issue and want to know whether you would advise me to buy now at 2¼ or to hold off until it is definitely known what action is taken, with the view to buying at a lower figure if the arrearage is not voted upon to be paid. — P. S., Eagle River, Wisconsin.*

St. Regis Paper Company earned 33¢ per share on its common stock in 1942 as compared with 71¢ in 1941. These earnings do not give effect to arrears on the preferred stock which, on April 1st, 1943, will amount to \$70.00. Consolidated balance sheet as of December 31, 1942, showed total current assets of \$11,646,215 as compared with total current liabilities of only \$1,760,783, an excellent ratio of 6.7 to 1. Cash, alone, amounted to \$3,672,100 or more than twice the total current liabilities. The stock has advanced from a low of 1½ in 1942 to around \$3.00.

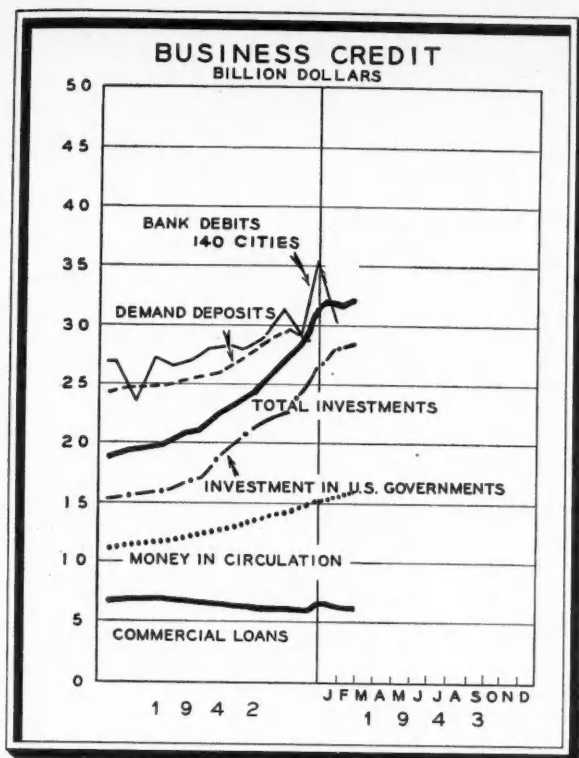
Commenting on the preferred stock arrears, the president of the company said that the management recognizes that continued improvement in financial position of company indicates the desirability of formulating a recapitalization plan to clear up arrears of dividends on preferred stock. Nevertheless, because of certain unsettled matters, including among other things, applicable tax loss and the shut-down of the kraft mill at Tacoma, Washington, which affects such a plan, the management believes that it is in the best interest of stockholders to await a clarification of those matters before presenting such a recapitalization plan.

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(Please turn to page 56)

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## CONCLUSIONS

**MONEY AND CREDIT**—England and U. S. propose post-war international currency, linked to gold, under control of a representative governing board.

**TRADE**—New meat ceiling prices favor chain stores: squeeze higher cost independents.

**INDUSTRY**—U. S. war expenditures from mid-1940 to date reach \$87.6 billion. First quarter business activity 3% above last year.

**COMMODITIES** — Allied nations' conference on post-war food problems set for May 18. Crop prices sag following President's veto of Bankhead-Steagall bill.

# The Business Analyst

Per capita **business activity** during the past fortnight has risen more than a point and a half to a new all-time high, with all components of our weekly business index reporting better than normal seasonal improvement. Average for March was 127.5, against 124.3 in February and 123.3 for March, 1942. Without compensation for population growth, this publication's index of Business Activity rose during March to 154% of the 1923-5 average, from 151 in February, indicating a gain of 5.8% over March of 1942. First quarter averaged 151, compared with 144 for the fourth quarter and 147 in the first quarter of 1942—first quarter thus showing a rise of 2.9% over the like period last year.

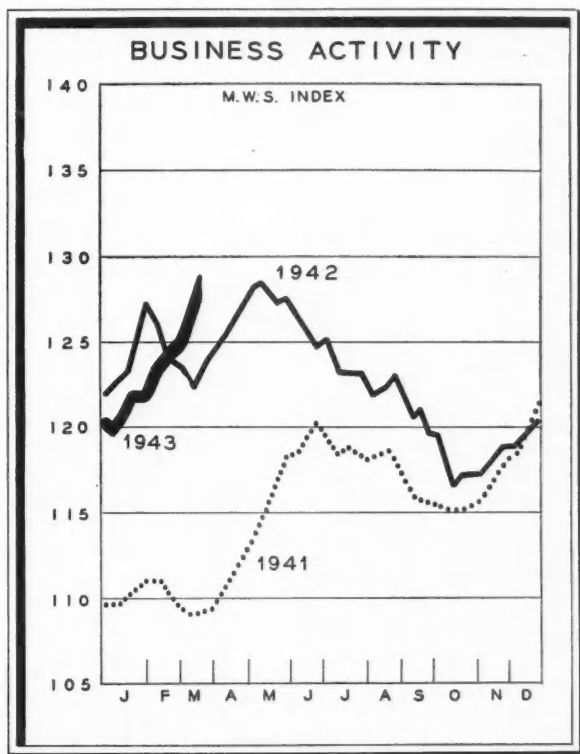
\* \* \*

Cost of goods produced and services rendered in the U. S. for war purposes during the 23-month period from March, 1941, to Feb. 28, 1943, totaled about \$85.6 billion, including \$9.6 billion **lease-lend** and \$7 billion for which our Allies paid cash. Our Government's **war expenditures** during March reached the new all-time high of around \$7 billion, raising our total defense-war cost since mid-1940 to about \$87.6 billion.

\* \* \*

Out of 1,479 **Government-owned war**  
(Please turn to following page)

APRIL 17, 1943



# Inflation Factors

|  | Date    | Latest<br>Wk. or Mo. | Previous<br>Wk. or Mo. | Year<br>Ago | PRESENT POSITION AND OUTLOOK  |
|--|---------|----------------------|------------------------|-------------|---|
| <b>FEDERAL WAR SPENDING†</b><br>(Fiscal Yr. to Date) | Apr. 5  | \$51,630             | \$50,015               | \$15,822    | (Continued from page 43)  |
| <b>FEDERAL DEBT† (Gross).....</b>                    | Apr. 5  | \$115,604            | \$115,172              | \$62,683    |   |
| <b>MONEY SUPPLY</b>                                  |         |                      |                        |             | plants projected, 1,022 costing \$4.3 billion are now in operation. The 1939 Census reported 90,000 manufacturing and mining companies in the U. S. with combined assets of around \$64 billion. A big post-war problem will be what to do with those Government-owned plants.  |
| Member Bank Dem. Deposits†.....                      | Mar. 31 | \$31,848             | \$32,128               | \$24,097    |   |
| Currency in Circulation†.....                        | Mar. 31 | \$16,252             | \$16,065               | \$11,593    | * * *   |
| <b>NATIONAL INCOME</b>                               |         |                      |                        |             |   |
| Total Income Payments†.....                          | Jan.    | \$10,769             | \$11,524               | \$8,487     | Secretary Morgenthau has called a conference of the United Nations to talk over plans for post-war currency stabilization. Both England and the U. S. have already outlined tentative proposals for a post-war International Currency, linked to gold, with international clearing and currency control centered at New York and/or London. Proponents of the plan say it has the great advantage of "impersonality." Opponents see in it an appalling degree of regimentation, endorsing the directing board with dictatorial powers over foreign trade and the internal economy of member nations. Others think this would go the way of the Austro-German Monetary Union of 1857, the Latin Monetary Union and other similar conventions—sabotaged by rampant nationalism. Extremists sense a British plot to monopolize world trade, or American machinations to make the dollar supreme. |
| Salaries and Wages†.....                             | Jan.    | 7,627                | 7,635                  | 5,719       |   |
| Dividends and Interest†.....                         | Jan.    | 786                  | 1,419                  | 778         |   |
| Total Non-Farm Income†.....                          | Jan.    | 9,643                | 10,244                 | 7,662       |   |
| Farm Marketing Income† (ee).....                     | Jan.    | 1,270                | 1,499                  | 1,005       |   |
| Including Govt. Payments† (ee)                       | Jan.    | 1,370                | 1,571                  | 1,116       |   |
| <b>FACTORY PAY PAYROLLS (di)</b>                     | Jan.    | 291.2                | 287.9                  | 200.7       |   |
| <b>FACTORY EMPLOYMENT (di)</b>                       |         |                      |                        |             |   |
| Durable Goods .....                                  | Feb.    | 166.6                | 165.0                  | 142.3       |   |
| Non-Durable Goods .....                              | Feb.    | 222.0                | 218.1                  | 172.3       |   |
|  | Feb.    | 123.0                | 123.1                  | 118.6       |   |
| <b>BANK DEBITS</b>                                   |         |                      |                        |             | * * *   |
| Member Banks (101) Cities†.....                      | Mar. 31 | \$12,550             | \$11,767               | \$10,201    |   |
| New York City†.....                                  | Mar. 31 | \$4,924              | \$4,808                | \$3,935     | Recent developments point to rising popular resentment against the Social Planners' crusade to level incomes. The Senate, by a vote of 74 to 3 (sufficient to override a veto), has just approved a revision of the House bill, originally passed on March 12 by a vote of 268 to 129, revoking the President's earlier order limiting salaries to \$25,000 net. The revised bill, now accepted by conferees of both chambers, puts a ceiling on salaries at \$25,000 net or their highest levels between Jan. 1 and Sept. 15, 1942, whichever is higher.   |
| <b>Cost of Living (c)</b>                            |         |                      |                        |             |   |
| All Items .....                                      | Feb.    | 101.8                | 101.4                  | 95.1        | * * *   |
| Food .....   | Feb.    | 110.2                | 109.1                  | 95.7        |   |
| Housing .....  | Feb.    | 90.8                 | 90.8                   | 90.4        | Former Assistant Attorney General Thurman Arnold declared recently that we must get back to the old economics of opportunity, of taking a chance, which made America great. If our whole thinking is obsessed with the idea of security, the same thing will happen to our industrial structure that happened to the French Army obsessed with the idea of the Maginot Line.  |
| Clothing .....                                       | Feb.    | 88.6                 | 88.6                   | 84.5        |   |
| Fuel and Light .....                                 | Feb.    | 92.2                 | 91.7                   | 90.4        |   |
| Sundries .....                                       | Feb.    | 106.7                | 106.6                  | 102.9       |   |
| Purchasing Value of Dollar.....                      | Feb.    | 98.2                 | 98.6                   | 105.2       |   |
| <b>RETAIL TRADE</b>                                  |         |                      |                        |             |   |
| Primary Distribution (b).....                        | Feb.    | 150                  | 144                    | 118         |   |
| Distribution to Consumers (b).....                   | Feb.    | 96                   | 88                     | 96          |   |
| Consumer Expenditures                                |         |                      |                        |             |   |
| Total† .....   | Dec.    | 8,326                | 7,187                  | 7,487       |   |
| Goods† .....   | Dec.    | 5,966                | 4,830                  | 5,274       |   |
| Services† .....                                      | Dec.    | 2,360                | 2,357                  | 2,213       |   |
| Retail Store Sales†.....                             | Feb.    | \$4,525              | \$4,468                | \$3,843     | * * *   |
| Durable Goods† .....                                 | Feb.    | \$664                | \$654                  | \$690       |   |
| Non-Durable Goods†.....                              | Feb.    | \$3,861              | \$3,814                | \$3,140     | Mr. Arnold's thesis might be supplemented with the observation that a multiplicity of diverse private blunders of only local and relatively temporary incidence does far less social damage than bungling on a national scale by opinionated and impractical social planners. To borrow an apt phrase from our esteemed contemporary, The Wall Street Journal, people are beginning to suspect that "planners can't plan."  |
| Department Store Sales .....                         | Feb.    | 165                  | 143                    | 126         |   |
| Chain Store Sales (g).....                           | Feb.    | 194                  | 177                    | 165         |   |
| Rural Sales, Gen. Merchandise (m)                    | Jan.    | 200.0                | 170.5                  | 199.0       |   |
| Commercial Failures (c).....                         | Mar.    | 401                  | 422                    | 1,048       |   |
| <b>PRICES</b>  |         |                      |                        |             |   |
| Wholesale (h) .....                                  | Mar. 27 | 103.3                | 103.0                  | 97.4        |   |
| Retail (s) End of Mo.....                            | Mar.    | 113.1                | 113.1                  | 112.5       |   |
| <b>DEPT. STORE STOCKS (f)</b>                        | Jan.    | 104                  | 102                    | 94          |   |
| <b>MANUFACTURERS ORDERS</b>                          |         |                      |                        |             |   |
| <b>SHIPMENTS &amp; INVENTORIES(e)</b>                |         |                      |                        |             |   |
| New Orders—Total .....                               | Jan.    | 239                  | 255                    | 268         |   |
| Durable Goods .....                                  | Jan.    | 350                  | 361                    | 414         |   |
| Non-Durable Goods .....                              | Jan.    | 168                  | 187                    | 174         |   |
| Shipments—Total .....                                | Jan.    | 226                  | 240                    | 184         |   |
| Durable Goods .....                                  | Jan.    | 303                  | 320                    | 214         |   |
| Non-Durable Goods .....                              | Jan.    | 166                  | 178                    | 161         |   |
| Inventories—Total .....                              | Jan.    | 177.5                | 177.6                  | 161.9       |   |
| Durable Goods .....                                  | Jan.    | 210.5                | 210.1                  | 179.2       |   |
| Non-Durable Goods .....                              | Jan.    | 148.6                | 149.2                  | 146.9       |   |

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# PRODUCTION AND TRANSPORTATION

|  | Date    | Latest<br>Wk. or Mo. | Previous<br>Wk. or Mo. | Year<br>Ago |
|--|---------|----------------------|------------------------|-------------|
| <b>M. W. S. INDEX OF BUSINESS ACTIVITY 1923-25—100</b> | Mar. 27 | 128.8                | 127.5                  | 124.5       |
| <b>INDUSTRIAL PRODUCTION (a)</b>                       | Feb.    | 203                  | 199                    | 172         |
| Durable Goods .....                                    | Feb.    | 298                  | 291                    | 225         |
| Non-Durable Goods .....                                | Feb.    | 148                  | 149                    | 142         |
| <b>STEEL</b>   |         |                      |                        |             |
| Ingot Production in tons ★.....                        | Mar.    | 7,670                | 6,826                  | 7,392       |
| Year's Total Production to ★.....                      | Mar.    | 21,920               | .....                  | 21,017      |
| <b>ELECTRIC POWER OUTPUT</b>                           |         |                      |                        |             |
| K.W.H.† .....  | Apr. 3  | 3,890                | 3,928                  | 3,349       |
| <b>ENGINEERING CONSTRUCTION</b>                        |         |                      |                        |             |
| Volume ★ (en) .....                                    | Apr. 1  | \$61,389             | \$74,130               | \$107,136   |
| <b>PETROLEUM</b>                                       |         |                      |                        |             |
| Average Daily Production bbls. ★.....                  | Apr. 3  | 3,918                | 3,896                  | 3,418       |
| Crude Runs to Stills Ave. bbls. ★.....                 | Apr. 3  | 3,624                | 3,742                  | 3,499       |
| Total Gasoline Stocks bbls. ★.....                     | Apr. 3  | 93,409               | 94,079                 | 106,406     |
| Fuel Oil Stocks bbls. ★.....                           | Apr. 3  | 67,483               | 67,938                 | 81,953      |
| <b>TRANSPORTATION</b>                                  |         |                      |                        |             |
| Carloadings, total .....                               | Mar. 27 | 787,360              | 768,134                | 808,286     |
| Grain .....  | Mar. 27 | 44,979               | 43,140                 | 33,732      |
| Coal .....   | Mar. 27 | 179,702              | 173,610                | 156,180     |
| Forest Products .....                                  | Mar. 27 | 41,717               | 40,154                 | 45,919      |
| Manufacturing and Miscellaneous..                      | Mar. 27 | 373,803              | 367,612                | 370,780     |
| L. C. L. Mdse.....                                     | Mar. 27 | 99,948               | 98,829                 | 143,660     |
| Ore .....  | Mar. 27 | 18,279               | 17,312                 | 33,368      |
| Coke .....   | Mar. 27 | 15,192               | 14,958                 | 13,840      |
| Livestock .....  | Mar. 27 | 13,740               | 12,517                 | 10,807      |
| <b>GENERAL</b>   |         |                      |                        |             |
| Paperboard, new orders (st).....                       | Feb.    | 508,539              | 511,724                | 508,272     |
| Lumber Production† (bd. ft.).....                      | Jan.    | 1,899                | 2,079                  | 2,373       |
| Cigarette Production† .....                            | Feb.    | 17,678               | 20,370                 | 16,628      |
| Bituminous Coal Production★(tons)                      | Mar.    | 56,450               | 47,209                 | 47,796      |
| Portland Cement Shipments★(bbls.)                      | Feb.    | 8,656                | 8,691                  | 8,293       |

The National City Bank finds that the combined **net income** (after taxes) of 2,560 leading companies, whose aggregate capital and surplus constituted 40% of the total for all American corporations, amounted to \$4.96 billion last year—virtually the same as in 1941. Rate of return on net worth, however, declined from 8.9% in 1941 to 8.7% in 1942.

\* \* \*

The Army, Navy, Treasury and Maritime Commission have agreed upon general principles to govern future **contract renegotiations**, and have exempted 32 groups of basic products from renegotiation. Among these are copper, aluminum, sulphur, crude oil, crude and pig iron, coal, chrome, manganese and ferro-manganese; lead, tin, zinc, and alloy metals. The Truman Committee wants an incentive for low cost production and exemption for post-war contingency reserves written into the tax laws. Senator George warns that if the OPA Administrator does not reject, once and for all, the theory that price ceilings must be imposed to prevent people from making what he considers **exorbitant profits**, Congress will.

\* \* \*

**Consumer spending** last year was 10% above 1941 in dollar total, but was off 1% in volume and declined even more in quality. A considerable portion of the increased spending may be traced to **stockpiling** in anticipation of shortages. Independent retail grocers in New York State report a 15% drop in sales of all groceries and a 73% slump in canned goods during the first two weeks of point rationing, compared with the corresponding fortnight a month earlier. New **meat ceiling prices** were above chain store prices; but under the higher cost independent's.

†—Millions. ★—Thousands. (a)—Index Federal Reserve 1935-39—100. (b)—Federal Reserve Bank of N. Y. 100% estimated long term trend. (c)—Nat. Ind. Conf. Bd. 1923—100. (d)—U. S. D. L. 1939—100. (ee)—Dept. of Agric. (en)—Engineering News-Record. (f)—1923-25—100. (fy)—Fiscal Year Basis. (g)—Chain Store Age. (h)—U. S. B. L. S. 1926—100. (i)—1939—100. (m)—1929-31—100. (s)—Fairchild Index, Dec. 1930—100. (St)—Short tons.

## THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

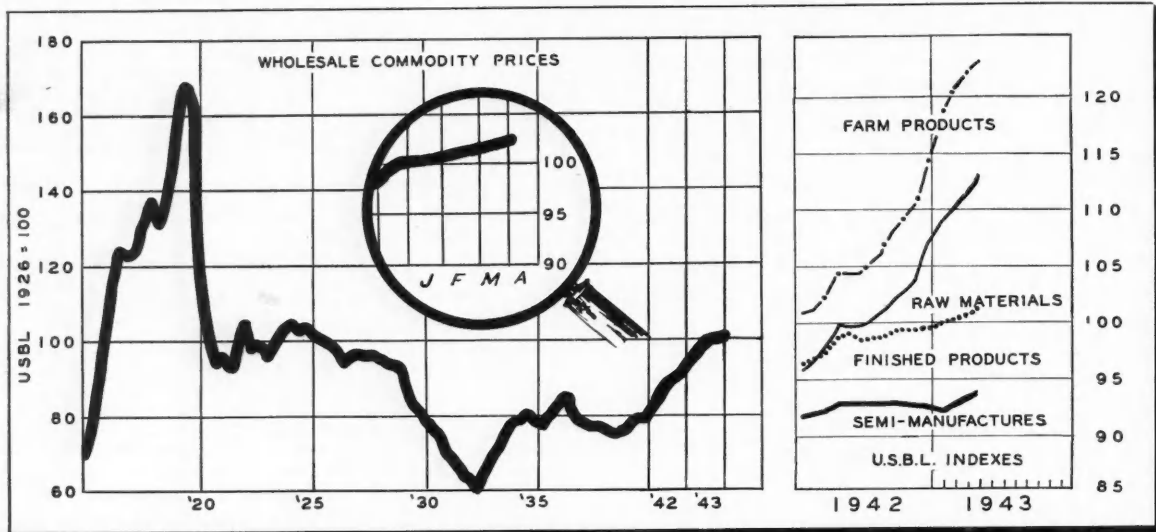
| No. of                          | 1943 Indexes— |       |        |         | (Nov. 14, 1936, Cl.—100)       | High  | Low   | Apr. 3 | Apr. 10 |
|---------------------------------|---------------|-------|--------|---------|--------------------------------|-------|-------|--------|---------|
| Issues (1925 Close—100)         | High          | Low   | Apr. 3 | Apr. 10 | 100 HIGH PRICED STOCKS.....    | 62.69 | 52.87 | 62.69C | 60.64   |
| 273 COMBINED AVERAGE.....       | 78.5          | 54.5  | 78.5F  | 74.8    | 100 LOW PRICED STOCKS.....     | 73.34 | 43.61 | 73.34E | 69.79   |
| 3 Agricultural Implements ..... | 134.3         | 105.2 | 133.6  | 128.8   | 3 Liquor (1932 Cl.—100).....   | 263.2 | 197.1 | 263.F  | 258.2   |
| 9 Aircraft (1927 Cl.—100).....  | 177.7         | 131.8 | 176.1  | 168.4   | 8 Machinery .....              | 103.9 | 83.6  | 103.98 | 98.9    |
| 5 Air Lines (1934 Cl.—100)....  | 437.3         | 363.1 | 429.9  | 417.1   | 2 Mail Order .....             | 72.7  | 61.8  | 72.78  | 69.2    |
| 5 Amusement .....               | 64.5          | 40.2  | 64.5F  | 60.8    | 3 Meat Packing .....           | 50.0  | 34.9  | 49.4   | 49.9    |
| 12 Automobile Accessories.....  | 122.2         | 83.0  | 122.2F | 115.4   | 10 Metals, non-Ferrous .....   | 148.7 | 106.8 | 148.5  | 143.5   |
| 13 Automobiles .....            | 17.4          | 9.7   | 17.4F  | 17.0    | 3 Paper .....                  | 12.5  | 9.0   | 12.58  | 11.6    |
| 3 Baking (1926 Cl.—100).....    | 12.2          | 8.5   | 12.0   | 11.6    | 21 Petroleum .....             | 120.9 | 86.9  | 120.9F | 113.2   |
| 3 Business Machines .....       | 162.1         | 129.4 | 162.1D | 149.9   | 18 Public Utilities .....      | 42.9  | 23.2  | 42.9C  | 39.4    |
| 2 Bus Lines (1926 Cl.—100)....  | 81.0          | 54.9  | 81.0C  | 78.0    | 3 Radio (1927 Cl.—100).....    | 21.0  | 12.1  | 21.0F  | 20.1    |
| 5 Chemicals .....               | 180.5         | 153.5 | 180.5D | 176.5   | 7 Railroad Equipment .....     | 48.7  | 32.1  | 48.7C  | 44.1    |
| 13 Construction .....           | 31.7          | 23.3  | 31.7C  | 30.6    | 17 Railroads .....             | 16.9  | 9.8   | 16.9D  | 15.9    |
| 5 Containers .....              | 214.0         | 177.1 | 213.5  | 205.6   | 2 Shipbuilding .....           | 104.2 | 83.4  | 103.3  | 97.9    |
| 8 Copper & Brass.....           | 81.0          | 63.6  | 80.4   | 80.1    | 3 Soft Drinks .....            | 259.3 | 197.8 | 259.3C | 256.2   |
| 2 Dairy Products .....          | 35.7          | 29.7  | 35.7   | 34.2    | 12 Steel & Iron .....          | 73.8  | 57.6  | 73.8B  | 70.2    |
| 6 Department Stores .....       | 23.4          | 15.4  | 23.4D  | 21.8    | 2 Sugar .....                  | 38.8  | 32.2  | 38.8   | 37.4    |
| 5 Drugs & Toilet Articles.....  | 75.2          | 50.9  | 75.2F  | 73.3    | 2 Sulphur .....                | 188.8 | 180.2 | 187.7  | 183.2   |
| 2 Finance Companies .....       | 198.5         | 152.6 | 198.5C | 190.0   | 3 Telephone & Telegraph.....   | 84.2  | 67.0  | 84.2F  | 83.2    |
| 6 Food Brands .....             | 110.8         | 85.5  | 109.7  | 108.3   | 3 Textiles .....               | 46.9  | 33.7  | 46.9B  | 45.7    |
| 2 Food Stores .....             | 39.9          | 37.7  | 39.7   | 39.9A   | 3 Tires & Rubber.....          | 23.9  | 16.5  | 23.9F  | 22.6    |
| 4 Furniture .....               | 50.9          | 35.0  | 50.9C  | 48.3    | 4 Tobacco .....                | 60.6  | 52.2  | 59.6   | 59.3    |
| 3 Gold Mining .....             | 912.6         | 610.3 | 912.6C | 840.0   | 2 Variety Stores .....         | 219.6 | 182.4 | 219.6C | 215.6   |
| 6 Investment Trusts .....       | 35.9          | 22.7  | 35.9F  | 32.9    | 20 Unclassified (1942 Cl.—100) | 157.3 | 100.0 | 157.3A | 145.0   |

New HIGH since: A—1942; B—1941; C—1940; D—1939; E—1938; F—1937.

## Trend of Commodities

Date for Allied nations' conference in the U. S. on post-war food problems has been set for May 18. At present writing it seems doubtful if the Bankhead-Steagall bill, barring deduction of farm benefit payments in computing parity levels, can be passed again in the near future over the President's forceful veto. Should this bill be placed on ice, prospects would be slim for passage of the kindred Pace bill to include labor costs in parity computations. The farm bloc is said to be satisfied with current prices, but wants these measures passed now to guard against a possible post-war collapse of farm prices. In view of the cur-

rent and prospective post-war shortage of foodstuffs an impartial observer would find scant reason for such fears. Wool supplies this spring are expected to reach the record total of 1.5 billion pounds, assuring ample stocks for civilian needs. Agriculture Department has just placed a floor of 40 cents (less freight and marketing costs) under wool, and will soon issue an order making the CCC sole purchaser of the 1943 domestic clip. Packers want the Government to control meat and livestock prices by becoming the sole buyer and distributor. Grain prices regained their equilibrium Saturday as cotton continued to give ground.

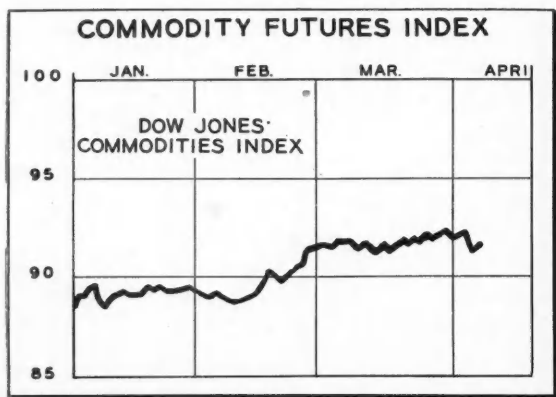


### U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

#### Spot Market Prices—August, 1929, equal 100

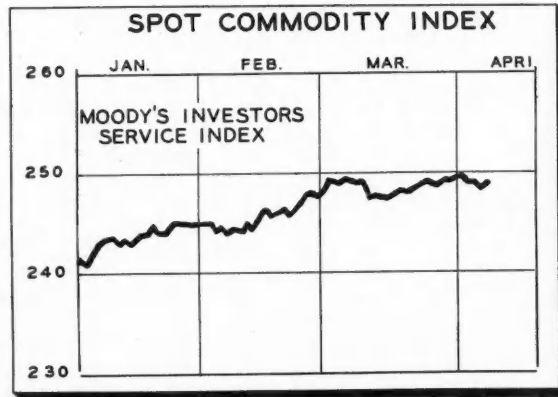
|                            | Date   | 2 Wk.  | Mo.    | 3 Mo.  | 6 Mo.  | 1 Yr.  | 2 Yr.  |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|
|                            | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 |
| 28 Basic Commodities.....  | 176.8  | 176.6  | 175.4  | 174.2  | 169.8  | 167.4  | 135.9  |
| Domestic Commodities ..... | 167.7  | 167.4  | 166.0  | 164.7  | 162.9  | 163.3  | 143.3  |
| Import Commodities .....   | 182.9  | 182.8  | 181.7  | 180.6  | 174.4  | 170.1  | 131.4  |

|                            | Date   | 2 Wk.  | Mo.    | 3 Mo.  | 6 Mo.  | 1 Yr.  | 2 Yr.  |
|----------------------------|--------|--------|--------|--------|--------|--------|--------|
|                            | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 | Apr. 7 |
| Domestic Agriculture ..... | 209.4  | 208.7  | 204.3  | 201.3  | 184.9  | 185.7  | 135.8  |
| Foodstuffs .....           | 201.8  | 201.5  | 199.9  | 199.1  | 190.2  | 185.6  | 138.5  |
| Raw Industrial .....       | 159.9  | 159.2  | 158.8  | 157.5  | 155.7  | 154.7  | 133.9  |



#### Average 1924-26 equal 100

|            | 1943  | 1942  | 1941  | 1940  | 1939  | 1938  | 1937  |
|------------|-------|-------|-------|-------|-------|-------|-------|
| High ..... | 92.16 | 88.88 | 84.60 | 64.07 | 64.67 | 54.95 | 82.44 |
| Low .....  | 88.45 | 83.61 | 55.45 | 48.74 | 46.59 | 45.03 | 52.03 |



#### 15 Commodities, December 31, 1931, equal 100

|            | 1943  | 1942  | 1941  | 1940  | 1939  | 1938  | 1937  |
|------------|-------|-------|-------|-------|-------|-------|-------|
| High ..... | 249.8 | 239.9 | 219.9 | 171.8 | 172.3 | 152.9 | 228.1 |
| Low .....  | 240.2 | 220.0 | 171.6 | 149.3 | 138.4 | 130.1 | 144.6 |

## A Century of Prices Part II

(Continued from page 37)

merely to say that the higher we go—economically speaking—the greater is the potentiality of decline, if natural economic law is free to govern the cycle.

Although every business cycle of the past has had its own special characteristics, generally speaking it is true to say that for many decades prior to World War I the rise or decline of activity in the capital goods industries was the most significant common denominator in expansions and depressions.

The reason went back to the elementals previously mentioned—the postponability of demand. Capital goods—factories, machinery, locomotives, etc.—last a long time. Hence purchasing demand can be deferred for a long time. Of course, this factor of instability—or potential instability—is still with us. But, mainly since the First World War, something new has been added. This is the huge growth of production of consumers' durable goods of types either not known before the last war or of relatively small economic importance—automobiles, radios, mechanical refrigerators and numerous other things. The market for such goods is similar to the market for capital goods in that buying demand is deferrable for long periods of time.

Thus, the most sensitive spot in our economy is no longer just capital goods but durable goods in general; and the relationship of this sensitive-to-shock sector of the economy to the total economy is far more important than in former times.

Whether a "mixed economy," with (it is to be hoped) more intelligent future cooperation between Government, private enterprise and organized labor can master the old business cycle or largely modify the downswings remains, in the final analysis, to be seen. At any rate that is the

# THE CHASE NATIONAL BANK

OF THE CITY OF NEW YORK

*Statement of Condition, March 31, 1943*

### RESOURCES

|  |                           |
|--|---------------------------|
| CASH AND DUE FROM BANKS . . . . .                                      | \$1,025,488,063.41        |
| U. S. GOVERNMENT OBLIGATIONS, DIRECT<br>AND FULLY GUARANTEED . . . . . | 2,403,235,986.41          |
| STATE AND MUNICIPAL SECURITIES . . . . .                               | 100,577,070.54            |
| STOCK OF FEDERAL RESERVE BANK . . . . .                                | 6,016,200.00              |
| OTHER SECURITIES . . . . .   | 150,407,368.34            |
| LOANS, DISCOUNTS AND BANKERS'<br>ACCEPTANCES . . . . .                 | 727,477,166.58            |
| BANKING HOUSES . . . . .   | 36,470,000.01             |
| OTHER REAL ESTATE . . . . .  | 5,906,244.06              |
| MORTGAGES . . . . .  | 7,375,417.42              |
| CUSTOMERS' ACCEPTANCE LIABILITY . . . . .                              | 4,153,699.83              |
| OTHER ASSETS . . . . .   | 15,548,937.01             |
|  | <u>\$4,482,656,153.61</u> |

### LIABILITIES

|   |                           |
|---|---------------------------|
| CAPITAL FUNDS:  |                           |
| CAPITAL STOCK . . . . .   | \$100,270,000.00          |
| SURPLUS . . . . .   | 100,270,000.00            |
| UNDIVIDED PROFITS . . . . .   | 49,353,116.44             |
|   | <u>\$ 249,893,116.44</u>  |
| RESERVE FOR CONTINGENCIES . . . . .   | 11,828,699.44             |
| RESERVE FOR TAXES, INTEREST, ETC. . . . .                                       | 4,402,330.16              |
| DEPOSITS . . . . .  | 4,203,291,330.16          |
| ACCEPTANCES OUTSTANDING \$8,718,987.15<br>LESS AMOUNT IN PORTFOLIO 4,327,708.01 | 4,391,279.14              |
| LIABILITY AS ENDORSER ON ACCEPTANCES<br>AND FOREIGN BILLS . . . . .             | 245,897.34                |
| OTHER LIABILITIES . . . . .   | 8,603,500.93              |
|   | <u>\$4,482,656,153.61</u> |

United States Government and other securities carried at \$442,985,547.50 are pledged to secure U. S. Government War Loan Deposits of \$237,858,277.31 and other public funds and trust deposits, and for other purposes as required or permitted by law.

*Member Federal Deposit Insurance Corporation*

general objective toward which we inevitably will move—whether it is under the New Deal or any other type of Administration that can conceivably get itself elected.

And in this general effort it is a pretty good bet that the objective of maintaining high employment and maximum utilization of producing resources will take prece-

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00

1937  
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144.6

REET APRIL 17, 1943

dence over all other considerations — including the Government budget.

Our people on the whole have no leaning toward the all-dominant State, but neither are they likely to submit to another depression on anything like the scale of that which came after 1929. The alternative, as I see it, is not between a "mixed economy" and a free economy—as free as that of the 1920's—but between a "mixed economy" and the State Supreme. If the "mixed economy" developed after this war does not work sufficiently well to preclude deep and prolonged depressions—well, you know the answer. The writer's belief (or hunch, if you prefer) is that it can and will result in a more productive and stable economic system than in the past.

As shown by the chart of per capita national income and real wages, the long-run trend, of course, has been toward rising individual income and higher and higher standards of living from generation to generation, despite the interludes of depression and instability. It has not been as fast as the idealists and dreamers would like, but Utopia can't be built in a day (or a century) — if it can be built at all. Certainly the fruits of our essentially capitalist system have been far more abundant and juicy than those harvested in any other country on earth or than under any other kind of system.

#### **Political and Industrial Effects of Changing Economic Controls**

*(Continued from page 15)*

voters habitually vote Democratic — would probably not alter the electoral vote perceptibly.

That leaves the non-South farm vote—and a good many millions of voters who are not attached to or affiliated with any "blocs" of any kind. These two groups will have the real balance of power in the 1944 campaign.

If it were not for the war, I think it would be self-evident that Mr. Roosevelt's chances for a fourth term would be slim or non-existent. The popular verdict of the last elections can be fairly

summed up as against the New Deal in general domestic policy, but for President Roosevelt in foreign policy and conduct of the war. Since those elections there has been no lessening of popular support for the President as Commander-in-Chief. On the contrary, since the war has begun to go much more greatly in our favor, public confidence in Roosevelt as our war leader has increased.

Nevertheless, there has been a significant change in the political status of Roosevelt. Huge majorities voted for him in 1932 and 1936 as the personification of the domestic New Deal. Smaller majorities voted for him, against Willkie, in 1940—and with war already on the loose in Europe and Asia, the decisive factor for a great many of these voters was not the New Deal at all but foreign policy. What has happened is that Roosevelt's hold upon the voters has come to rest more and more on his war leadership and less and less upon his leadership of the New Deal as a social-economic concept. Thus we have the seeming paradox—but not strange at all—of a majority of the people being well satisfied with Roosevelt as war chief—but also well satisfied to have a conservative, anti-New Deal Congress. From the public's point of view, this characteristically democratic compromise seems to be working fairly well—and both because it is working fairly well and because there may not be an adequately attractive alternative to it in 1944 it may very well be extended by another election.

Of course, it is very early to be venturing opinions about next year's campaign and election—and to offer actual prophesy would be foolish. There will be some new factors involved, notable among them being an unusual preponderance of women voters, due to absence from the polls of millions of men in the armed forces; and the Gallop poll indications are that this will be an advantage to the Republican Party. Personal experience with rationing and other war-time nuisances has emphasized bureaucratic bungling in the minds of

hordes of these women. On the whole, it may be said that public esteem of politicians is in a bear market, while the able industrialist is again an admired and respected figure.

But if we are still at war, that will be the towering and dominant political factor in Presidential politics—reducing all other considerations to secondary importance in the minds of a decisive proportion of voters. To believe the voters would exchange a successful Commander-in-Chief for a comparatively little known and inexperienced Republican candidate—Gov. Bricker of Ohio, for example—seems to this writer a fantasy.

Politically smartest of the Republican leaders—and one of the ablest — is Gov. Dewey of New York. Perhaps the smartest thing he has done is to take himself out of the 1944 running, while concentrating on building a solid record for a later try.

#### **Investment Audit of Erie Railroad**

*(Continued from page 32)*

delays transit; and (3) affiliation with the Chesapeake & Ohio and interchange of traffic with this road is not likely to be jeopardized, despite the sharp personal differences of the two managements, which was brought out at the time of the proposed issuance of new securities a few weeks ago. These fundamental factors, favorable to the Erie and permanent in character, make for higher efficiency, higher ton-mile rates, longer hauls and lower operating rates.

The stock at current levels of 13 sells at less than four times probable '43 earnings. On the basis of the \$1.00 dividend the yield is only fair. However, on the assumption that the rails must share more liberally in the remainder of the bull market, we consider this issue attractive for a near term period. For the longer term, the fundamental strength of this reorganized road makes it one of the most attractive of all of the Junior equities in the railroad field.

## As I See It!

(Continued from page 5)

our home markets, our financial and economic position, calls for full cooperation by all parties and groups, since our success will depend on the wisdom with which we negotiate looking to the peace. The opposition cannot afford the luxury of placing obstacles in the path of our Government if they wish to protect their own economic interests—let alone that of the country—for conditions after the war loom dangerously if not taken in hand now. Under such circumstances the blame for all our troubles will fall with full force upon these obstructionists, for today even the dullest citizen recognizes the political import of the moves by such factions. It is bound to speak loudly against them in the next election.

The tools for conducting negotiations must be forthcoming. Of great importance at the present time is Secretary Hull's request for the continuation of reciprocal trade treaties, which should be granted for the very common-sense reason that it has served us well during a most critical period in our history. And for the other most practical reason that it will indicate a realistic viewpoint on world trade by both Democrats and Republicans, and will thus remove a serious political stumbling block that would surely be used to our disadvantage by those who say that the United States cannot be counted on to live up to its agreements if the opposing party is elected to power.

The farm block, too, has outlived its usefulness. It is well for the isolationists to realize that they are going to lose the support of the farmers—that in adhering to the President they are deserting conservatism for liberalism, which will have a stabilizing political effect on the present regime. The appointment of Chester Davis as Food Administrator was a shrewd political move that not only gave the farmers the kind of leadership in which they have confidence, but assures business that the President intends to



*A new building of the Bell Telephone Laboratories*

## Reason for Confidence

More than ninety per cent of American scientists are engaged in beating the Germans and Japanese.

More than ninety per cent of American scientific laboratory facilities are devoted to the same task.

American scientists are working at this job six or seven days a week, long hours, with few interruptions.

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Every now and then the Germans and the Japanese have an unpleasant surprise.

They find that American science has caught up with them and passed them.

It is reassuring to us and discouraging to our enemies, for American scientific facilities are the greatest in the world. And they are functioning.

Little by little, some of the things that have been developed become public, but most of them you won't hear about until after the war.

But now, without the details, you can have faith that American research—industrial and academic combined—is giving our fighting forces an advantage.

Along with other American industry, the Bell Telephone System has its own Bell Laboratories—the largest in the world—working overtime for victory.

### BELL TELEPHONE SYSTEM



*Your continued help in making only vital calls to war-busy centers is a real contribution to the drive for victory*

continue to appoint to key posts those worth-while business executives whose experience and contacts can bring co-operative understanding.

Nor can an upset in Labor be expected by the opposition, for it is well recognized that obstructionist Mr. Lewis is not on the side of labor so much as he is on

the side of the conservatives against the President. The strike by the miners, as a protest against Mr. Lewis' demand for increased dues at a time when he believed the mineworkers' income was so low that a wage increase was necessary to supplement a better living standard, did not sit very well with the public. And if the

President takes a firm stand, as is indicated by his executive order to hold wages in line and his statement that "the times do not call for increasing the standard of living but for cutting it," he will gain many political adherents from among those who opposed him before.

As far as labor is concerned, it can be stated without fear of contradiction that the trend is now toward the middle ground. That we can expect labor to adhere closer than ever to the President as a result of the shock it received in the execution of Erlich and Alter in Russia. That this blunder has started a trend away from communism and will have a tendency to serve democracy greatly by upsetting calculations of the radical elements among labor and the over-ambitious among labor leaders. Moreover, this changed situation will act as a cushion in the post-war period and bring equilibrium at a time when we will most need it—when re-employment will once again become a factor of importance.

All in all, the tide is turning—with the trend away from totalitarianism whether fascist or communistic—and toward democracy. It would be well for the obstructionists and isolationists to remember this in making their plans for the future.

So much for the domestic scene.

### **In the Foreign Field**

Abroad, the same battle for economic power is continuing. In this war, like past European wars, the objectives are distinctly economic. The preview of this conflict in its Spanish setting made this fact clear. The support of the various outside powers veered, depending upon which army was being negotiated with regarding the Rio Tinto and the important quicksilver mines at Almaden.

In the light of sophisticated observation, therefore, today's analysis indicates that back of the roar of guns and the turmoil of the battlefield the British are seeking access to desirable ports on the Mediterranean—suggesting that they have in their minds a continuation of depots and sup-

ply lines to connect with those already established by them in the Near East. This would give Britain economic control of inland territories on the African continent, as well as a predominant position in shipping when the war is over. Such control would make it necessary for the products of these countries to be carried in English bottoms and under such conditions service and insurance fees would continue to revert to the mother country.

I am not saying all this in criticism of the British, who, I recognize, are fighting to rebuild their position, both financial and economic, but merely to indicate that we cannot afford to wait until after the war if we wish to retain our advantage in world trade.

As far as we are concerned, the situation calls for a practical plan of collaboration between the United States and Britain, since world trade will depend greatly on docks and warehousing facilities as well as bottoms. The amazing ship building developments in our country are unquestionably a factor in British plans.

As I pointed out last time, a great deal of the economic intrigue in North Africa had to do with the struggle for political control between pro-British and anti-British Frenchmen. Up to a short time ago, before the Americans recaptured Gafsa, the prospects of peace between the two factions still seemed far away. I am wondering to what extent the proposals of General DeGaulle to visit North Africa for a conference with General Giraud had to do with the fact that the district around Gafsa occupied by United States forces is the great prize of North Africa, containing as it does the vast deposits of phosphates so urgently needed as fertilizer on the European continent. So rapacious, evidently, are these powerful interests that they utterly disregard the urgency for peace behind the battle front at this military crisis in their eagerness to stake out a claim to this highly valuable property. General Eisenhower showed courage and statesmanship in suggesting the postponement of DeGaulle's visit.

Now that the Eighth Army has made a juncture with the Americans, we hope all attention can now be concentrated on destroying Rommel's army to make way for an invasion of the European continent.

Our State Department, highly informed and in full possession of the facts, has been harassed most frequently by those with only a surface knowledge of what is going on. Our Government has clearly endeavored to steer a middle course so as not to throw the balance of power either to the fascists or communists, working continuously for the establishment of democracy and the economic reconstruction of the world after the war. It has been of distinct service, as well, to every branch of our Government—military, naval, financial and economic—to such an extent that their efforts call not only for complete cooperation, but for grateful recognition and support.

By approaching the matter with full understanding of our domestic situation and with sympathetic and common-sense handling of the problems of our allies and our enemies, we can collaborate in working out a plan that will bring peace and happiness to all of us.

### **Re-Appraisal of Companies In the News**

*(Continued from page 35)*

holds an important position in the household appliance field. In 1941 it contributed 23% of total sales volume. Besides Norge refrigerators, it makes gas and electric stoves, washing and ironing machines, oil burners and air conditioning equipment. Aircraft equipment in 1941 represented 11% of sales but will bulk much larger during the war period. Finances were consistently maintained in a strong position but bank loans may now be necessary to finance the huge volume of war work. Total assets at the year end were \$105.36 millions against \$73.51 millions a year ago.

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**Union Securities Corporation**

*April 2, 1943.*

**Dynamic Outlook for Rayon Stocks—In War and Peace**

*(Continued from page 25)*

show some increase; earnings should be well maintained and the quarterly dividend of fifty cents continued.

CELANESE CORPORATION OF AMERICA, second largest unit and leading maker of acetate yarn and staple fibre, in 1942 reported new peaks in all divisions, including its important plastics division. Gross sales reached \$86.14 millions, a gain of 38% over 1941 gross of \$62.28 millions. This, however, included an entire year's sales of plastic products while for 1941, plastic products operations were only from Dec. 5th, the date of the merger with Celluloid Corporation.

Placed on a comparable basis with 1942, the 1941 figure for sales was \$71.54 millions and profits before Federal taxes \$15.31 millions, compared with

\$19.74 millions in 1942. The substantial gain in operating income was largely eliminated by a 35% increase in taxes, leaving final net of \$7.09 millions equal to \$3.42 per share compared with \$7.10 millions or \$3.43 per common in 1941.

Operations in 1943 are expected to continue at a high rate although reduction of chemical allotments may reduce somewhat output in the rayon division; thus operating income and net of 1942 may not be entirely equalled in 1943. The plastics division however is expected to continue to forge ahead. Operating margins should be well maintained. New developments, the result of continuous research, foreshadow long-term sales growth. On the other hand, as a producer of acetate yarns which go largely into finer and higher-priced fabrics, the company is not immune to fluctuations in consumer income.

INDUSTRIAL RAYON CORPORATION is the third largest unit and second largest producer of viscose yarn with an estimated plant capacity of 38 million pounds

annually. Normally two-thirds of the output goes to the weaving trade, the remainder consisting chiefly of knitting yarn is being used in the company's knitting division. The plant operates at lowest cost but spreads latterly have been narrowing in line with rising cost factors and smaller profit margins from war orders for which a substantial part of plant facilities has been converted. Net sales in 1942 rose 8.3% to \$20.73 millions from \$19.15 millions in 1941. Costs advanced 7% and taxes 35.7% leaving net income of \$2.01 millions, equal to \$2.64 per share against \$2.31 millions or \$3.04 per common in the preceding year. Taxes amounted to \$6.07 per share against \$4.47 in 1941. The company's financial position is strong with working capital of \$7.98 millions, compared with \$7.45 millions in 1941; current assets were \$12.46 millions and current liabilities \$4.48 millions. Total assets were \$29.65 millions against \$27.31 millions in the previous year. During the early 1943 period, net should hold well

around late 1942 levels and continuance of the quarterly dividend of fifty cents is expected over the nearer term. Despite marked expansion in the past, growth prospects remain an important factor in the longer term outlook. The company is especially interested in the production of tire cords after the war in which it sees a promising field. Sales of yarn for textile purposes are likewise expected to expand with rising peace-time demand but in the future may fluctuate increasingly with the cyclical swings of the volatile textile industry. The capital stock sells only moderately above book value and, currently yielding about 7%, should have market possibilities.

Of the smaller units of the industry, none has so far reported 1942 results which, however, should closely parallel the showing made by the larger companies.

### **Diverse Effects of Rationing On Food Securities and Related Issues**

*(Continued from page 17)*

this country and in South America there is plenty of raw materials for the meat packing companies—and since there is no question about demand, prices should be high enough to permit manufacturers of meat to make satisfactory profits. In this connection, a company like Swift International, operating largely in Argentina and selling chiefly to Britain and the Continent, should be able to do especially well. Wilson & Co. also has South American properties. The American packers, such as Swift & Co., Cudahy Packing, Armour & Company, Wilson & Company and John Morrell should be assured of a period of good earnings. Europe not only is bare of meats. It is also bare of fats and meat animals.

Secondly, we are going to eat more cereals—at least until the shortage of foods spreads to grains as it probably will some time in the next 12 to 18 months.

The spaghetti and macaroni makers should do well. The bread bakers, like Continental Baking, General Baking and Ward Baking, not to mention many smaller local companies, should have a larger-than-normal volume. So should the milling companies like General Mills and Pillsbury.

Third, sugar is, and probably will remain, one of the cheapest energy foods. Cuba and the West Indies can produce two or three times as much as they will make this year; and they may do it as soon as the shipping is available to handle it. That suggests companies like West Indies Sugar, Cuban-Atlantic Sugar, Cuban-American Sugar, Francisco Sugar, United Fruit, American Sugar Refining, South Porto Rico Sugar, Fajardo, Punta Alegre, Central Aguirre and smaller West Indies units. Almost in the same breath one might mention United Fruit, which has thousands of acres of bananas growing in Central America.

Fourth, there are the vegetable fats and margarine companies such as Wesson Oil & Snowdrift, Chickasha Cotton Oil, Glidden, Best Foods, National Dairy Products, and again, the meat packers, all of which are important margarine makers. There may be some companies, too, which make fats from peanut oil and soy beans. Glidden is one of the latter.

Fifth, there are the frozen foods units such as General Foods, Stokeley Brothers and their like. We are going to have more frozen foods and less canned and bottled stuff for the duration. That introduces the deep freeze business for which motor products has been making cabinets and other equipment. No doubt all the canners will do more or less in dehydration, at least for the duration; and there is no reason why outfits like Libby, McNeil & Libby, California Packing and Snider Packing should not do a large and profitable business, with the Government if not with the general public. Of course more food, both commercially canned and home canned, will be packed in glass and less in tin, which means more business for the glass container makers like Owens-Illinois Glass

and Hazel-Atlas Glass.

Then we have the companies which, although they do not produce food directly, make a big contribution to the productivity of the food industry. These are the farm implement makers such as International Harvester, Deere & Company, Oliver Farm Equipment, Minneapolis-Moline Power Implement, New Idea Company, J. I. Case Company, Massey-Harris and to a less extent Allis-Chalmers and Caterpillar Tractor.

In the same general category belong such corporations as American Fork & Hoe, American Agricultural Chemical, International Mining & Minerals, Virginia Carolina Chemical, Davison Chemical, Brown Fence & Wire, Continental Steel, Cherry-Burrell, and feed companies like Allied Mills.

There is no room in this suggestive summary to analyze any of these companies in detail. Obviously none of them should be bought blindly. It may be said, however, that some of the marginal concerns in the farm equipment industry would appear to be very good speculations in a situation like this; that a stock like United Fruit lately has been exceptionally depressed in relation to other quality issues because of the temporary shipping outlook; that the sugar shares lately have been held down by disappointing 1943 production quotas; and that it is a foregone conclusion that the production quotas of the farm implement companies will have to be increased.

The one thing that should be stressed is that the American people as they get more hungry are going after food—and that they are going to be willing to pay for it. Food is where you find it.

### **Mexico, Central America and Cuba**

*(Continued from page 20)*

ican republics, about as large as Georgia, Alabama, Florida and Carolinas combined and with about 8 million people, have in

the past received relatively little outside capital, one reason being their perennial political upheavals and the relative scarcity of industrial raw materials. There is some chrome ore in Guatemala, manganese in Costa Rica and gold and silver in Nicaragua, Costa Rica and Honduras. The outstanding Government and corporate bonds were estimated as of December 1941 at about \$25 millions, and our own direct investments at the end of 1940 amounted to about \$190 millions.

Central American bonds shared in the general price rise of other Latin American bonds in the last two years, though Costa Rican and Salvadorean bonds have remained in default. The service on Panamanian issues has been resumed since early 1941 after interest rates had been readjusted downward.

The third region of the "Middle America," the Caribbean island bridge, has suffered from the inability to obtain industrial goods and foodstuffs (in Puerto Rico early this year only a one-month supply of food was on hand). The situation has been due to three major factors: (1) as a result of our building of extensive military bases and because of many new projects aiming at the development of new products (rubber in Haiti, nickel and manganese in Cuba), most of the Caribbean countries have definitely more money and the purchasing power is up. (2) Higher wages have lured many people from the land, and consequently foodstuff production has declined at a time when (3) shortage of shipping has prevented the normal importation of foodstuffs and industrial products. Thus while the war has brought about a temporary increase in the standard of living, it has also pushed prices upward and has in general created conditions which are causing much dissatisfaction and suffering through the islands.

The shipping scarcity has also interfered with the production for exports. Although most of the cash crops have been purchased either by the United States or Great Britain, regardless of whether they could be

shipped or not, production is being held back. In Cuba the problem of storing sugar that has been sold to the United States but remains unshipped, has been the chief consideration in the decision to hold this year's crop to 3,300,000 tons though there is enough cane to make a crop of at least 4,500,000 short tons of sugar. The carry-over, which last December was put at about 1,650,000 short tons, is expected to increase to about 2,400,000 tons of sugar. The maximum storage capacity is estimated to be around 4,500,000 short tons. In Santo Domingo, large stocks of sugar have also been left unshipped. In Puerto Rico the principal trouble seems to be the lack of fertilizer and there is a possibility that as a result the 1944 if not the 1943 crop will be considerably smaller.

Next to Java, the Caribbean islands probably support the most thickly settled agricultural population in the world. In an area not larger than the states of Alabama and Georgia, of which much is unusable because of mountains or poor soil, are crowded some 13 million people. Only Cuba has any sizeable industries, and these process few domestic raw materials. The Dominican Republic introduced a few industries during the Thirties, but in Haiti and in Puerto Rico the industries have not emerged yet from the handicraft stage.

The pressure of rapid growth of population, which is most serious in Puerto Rico, Haiti, Jamaica and other British West Indian Islands, will be difficult to solve. Certainly independence for Puerto Rico or the proposed Dominion status for the British West Island will not in itself offer any relief. Possibly the way out lies in a more intensive use of available land through the development of permanent mixed "peasant" farming. That would mean an increased production of essential foodstuffs (including livestock), possibly at the expense of present plantation crops.

Cuba and the Dominican Republic have no population problems. Business in both countries has been good.

The outstanding dollar bonds

of the Caribbean countries amounted early in 1942 to about \$70 millions. Our direct investments were put in 1940 at over \$670 millions, of which more than \$500 millions were located in Cuba alone. The debt record in recent years has been good, and Cuban, Dominican and Haitian bonds have been among the best rated Latin American securities. Bonds of all countries covered in this article are speculative.

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### What Is the Wisest Investment Policy Now?

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*(Continued from page 11)*

projected far into the post-war period. That the sailing can indefinitely be as smooth as that of the past twelve months is improbable. Particularly if the advance goes substantially further in the interval, it would not be surprising if the approach of peace brought very sharp declines in a great many stocks; and it is not inconceivable that a minor bear market could develop, anticipating transition and re-conversion on the one hand, and "correcting" the not improbable previous over-discounting of longer-range post-war potentials.

It may be apt to liken the vista ahead to a journey by automobile from sea level up to a distant mountain pass, over a road for which you can have no detailed map. The road will not be straight, nor will it maintain a uniform angle of incline. You will come to sharp upgrades from time to time, but also once in a while to some sharp dips—though your general direction is upward. You may even cross a fairly high mountain and come a goodly distance down the other side before beginning the climb to the ultimate lofty pass in the big mountain that has been your objective.

To make this kind of journey as an investor in common stocks, two things are important: (1) to select stocks of sufficiently good quality so that you can feel comfortable and confident with them; and (2) to make up your mind to be patient and just ride along. This does not mean to "put 'em

away and forget it." It is possible for adverse changes—important enough to require revision of investment opinion—to develop in the situation of any company over a period of time. The wise investor must be a watchful investor. But if your selection has been sound and nothing has really changed in the position of the company, don't turn sour on a perfectly good stock if—as often happens—there should come a period when for many weeks it doesn't "move" with the market. Unless something is basically wrong with it, in due time it will "move." To shift holdings around merely on the basis of varying short-term market action is to assume trading, rather than investment, risks and thus to multiply the chances for wrong judgment.

I doubt if one in-and-out trader out of fifty has done as well over the past twelve months as he would have done simply by buying a diversified list of sound stocks a year ago and sticking with them. Nor are these odds likely to change in future.

At this point it is pertinent to remind you that some of the most important answers to your investment problems can not possibly be arrived at *by anyone except yourself*. It is of elemental importance—though a surprising number of investors don't seem to realize it—to analyze your own personal circumstances and characteristics with objective realism, and to gear your investment objectives to them. You can't have a "safety first" investment income, plus maximum potentiality for capital gain. They just don't go together. Taking into account age, economic status and prospects, dependents, obligations, etc., you will have to decide as soberly as possible what is a proper and justifiable compromise between risk on the one hand and potentiality of profit on the other. If you are unable to detect fairly readily the difference between a sound stock and a "dog," you had better either leave common stocks alone—or seek competent advice.

While this discussion is primarily concerned with your com-

mon stock investment policy, it should hardly be necessary to say that, with few exceptions, common stocks should not be the whole of anyone's investment program. The proportion of capital that should be placed in fixed-income securities, versus common stocks, must be determined by the needs and circumstances of the individual, and can not be determined by any general rule-of-thumb. This decision under present circumstances is harder to make than normally because it confronts any intelligent investor with an intellectual conflict.

On the one hand, you are called upon to buy war bonds to the maximum of prudence and ability. On the other hand, we are in an inflationary period in which the purchasing value of fixed income is threatened with some degree of shrinkage. You will have to let your own patriotism, conscience and judgment resolve this problem as best you can. My own belief has been that the cost of living is unlikely to rise nearly as much as it did during the First World War and immediately thereafter; and that, following the post-war transition and reconversion it is likely to decline during the expected peace-time prosperity period and thereafter for the long term. If that is correct, it is an argument for a substantial proportion of backlog fixed-income securities in the average portfolio—and for putting a major portion of new savings (other than insurance) into war bonds. This general slant on inflation has previously been emphasized in our pages and the President's current anti-inflation policy strengthens our conviction all the more.

A final word on diversification, since it seems to be a matter which confuses many readers. It is common sense not to put all your investment eggs in one basket—but it is also common sense not to distribute your eggs among so many baskets that it becomes difficult, if not impossible, to keep an eye upon them with adequate watchfulness. In the portfolios that come to my notice I have seen many more examples of over-diversification—

small lots of shares in 20 or 30 or more companies—than of under-diversification.

The many industries in our private enterprise system are so largely inter-related that one can get adequate diversification by concentrating common stock holdings within as few as a half dozen—or even less—which are essential and which appear to have above-average longer-term volume and earnings potentialities.

In judging longer-term industrial prospects, you will be wise to ignore short-term market evidence—for instance, the recent belated strength in coppers and heavy steels—and avoid industries whose longer potentials appear either dubious or of greater than average uncertainty. In general, the consensus consistently reflected by the market over the past year is that consumer goods industries have a more assured prospect than capital goods industries or extractive industries, with the exception of oil. For longer term investment purposes, I am inclined to accept that at face value.

## The Allies Shape World Recovery

(Continued from page 21)

surely "suggestion" accompanied by economic power is but a polite phrase. It is too much to expect of human nature to hope that the Lancashire exporter or the London investment banker will suggest that which would insure to the benefit of his competitors abroad. More than that, weak states can have their tariff policies so shaped that they suit the book of the British trader and, in this way may possibly, diminish their imports from the United States.

It is argued that the British plan is easy to impose, that in the period of post-war doubt and disorder, a quick, simple, automatic method is best, instead of a comprehensive one. But the British plan, really, is not a plan at all. It is simply the old international method of clearing credits and

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currencies. These used to be regulated by the export and import of gold, ultimately. Now they are to be regulated by Bancor, which in turn is regulated by gold. But, since the old system of clearing currencies (however admirable in theory) collapsed, it is clear that the British plan is superficial. Deeper reasons must exist for the crisis in currencies, than currencies themselves.

The American plan, suggested by a profound economic student, Mr. White of the United States Treasury, unlike the British, which merely ratifies the trade position of long ago, is creative. It seeks the establishment of proper bases for recovery, before regulating the foreign exchanges which are, in the long run, dependent on the health of the respective countries who participate in currency arrangements.

The American plan envisages a new international bank, with a capital of five billion dollars minimum, whose assets would be contributed by the member nations in gold, in valid local currencies, in trade bills, or in sound government securities of these countries, so that participation would not be limited to one basis only, but on the broader foundations of such negotiable assets as each country possesses. This international bank would function like our Federal Reserve Bank, in that it would discount its own obligations, or would sell them to member countries. In other words, the world would invest in this bank. Every nation would have an interest in its prosperity. There would be a penalty, an economic loss, if any country depreciated its own interest in the bank. The United States proposes that it apportion interests in this bank to its member nations in proportion to the capital they contribute. Now, in Britain, the *Financial News* is apprehensive lest this mean American supremacy, the final triumph of the dollar over the pound sterling as the international medium of exchange. It argues that America has the largest capital supply in the world: hence in any international bank where votes are determined by capital, America, as

the largest gold holder, must be paramount. But these fearful critics forget that the United States has unselfishly renounced this supremacy.

It allows member countries to contribute such capital assets as they may possess, providing that these have a basis for proper negotiability. Many a country, with little gold, and little foreign trade, yet has a basis for participation, roughly according to the value that the products of its national labor can command in world markets. More than that, the American International Bank, instead of merely confirming the pre-war volume of trade, seeks, in the American creative tradition, to provide capital funds to the member states so as to augment their recovery and thus enormously increase the volume of world trade. The American plan provides both for the regulation of the flow of productive capital and also provides for the regulation of the trade consequent upon the investment of this capital by means of clearing money, to be called the "Unitas." To show the foresight of Mr. White's plan, a simple illustration will suffice. The American plan provides a slow liquidation system for reducing such abnormal balances of trade as arise out of the war itself. The fearful burden of currently meeting crushing war debt abroad out of current revenue, was the greatest single cause of the collapse of 1929, in the last analysis. This is remedied by the system of gradual repayments contemplated by the White plan.

The British critics argue that the American plan is silent on tariffs, whereas the British plan provides for "suggestions" for tariff revisions when the Bancor needs indicate that such a change is required. It is true, that, ultimately, any creditor country must be prepared to accept goods if it is to receive payments. But the British fallacy consists in holding that these payments in goods must be made by the creditor nation at about the same time as the money payments are made by the debtor nations. The fact is that the provision of new

current capital by the international bank, might take the place of such a payment in goods for a considerable period. Then, when internal recovery of consumer buying power in the creditor country would have increased, the supply of goods from the debtor country can take place all the more easily. The American plan thus provides true management both in space and in time.

Both plans are tentative. Both plans are exploratory. They have one feature in common, though, which must fortify the confidence of every investor. Isolation is dead. No country seeks salvation by itself alone. The war is shaping the international mind: it ardently seeks cooperation to achieve international, and lasting security and prosperity. No differences can possibly be as significant as that fundamental agreement.

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## Promising Leverage Stocks

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(Continued from page 39)

1942 results amounted to \$3.65 per common including income on two-thirds interest in the Vascaloy-Ramet Co. This figure however includes only that portion of the EPT refund permitted to be retained as the result of debt retirement. If the full amount of the refund for the parent company and two-thirds of the amount for Vascaloy-Ramet were included, 1942 earnings would actually come to \$4.30 per share.

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## Answers to Inquiries

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(Continued from page 42)

jectural on our part to attempt to predict what action will be taken regarding preferred arrears, the company's strong financial position should permit some constructive steps being taken in this matter. If you desire to speculate in this stock which admittedly has speculative appeal, we would suggest buying on a down scale.

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